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ECONOMIC AFFAIRS



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ECONOMIC POLICY, ORGANIZATION AND MANAGEMENT

BELORUSSIAN EXPERIMENT DESCRIBED IN KAZAKH JOURNAL

Alma Ata NARODNOYE KHOZYAYSTVO KAZAKHSTANA in Russian No 8, Aug 85 pp 25-28

[Article by B. Smirnov, deputy chief, Department for Introduction of New Methods of Planning and Economic Stimulation, Belorussian SSR Gosplan: "Economic Experiment in Action"]

[Text] In the beginning of next year enterprises of the ministries of local industry, motor transport, consumer services and a number of other sectors of the Kazakhstan national economy will embark upon an economic experiment of major proportions.

The article below by B. Ye. Smirnov, deputy chief, Department for Introduction of New Methods of Planning and Economic Stimulation, Belorussian SSR Gosplan will be of certain practical interest to business executives of these sectors. Using a number of Belorussian associations and enterprises as an example, it analyzes the influence of the basic provisions, terms, economic levers and stimuli foreseen by the experiment on improving the economic mechanism.

The purposeful, intense work carried out both during preparations for the economic experiment and in the course of its conduct had an effect on improving the work of associations and enterprises of Belorussian light and electrical engineering industry. The considerable thought given by each collective to the planning quotas, their balance with the material and technical resources, and the submitted standards and procedural documents also helped. Comprehensive discussion of drafts of the plan for 1984 in the labor collectives made it possible to reveal internal reserves and adopt an additional plan of 17.4 million rubles for the volume of consumer goods production and 2.6 million rubles for electrical engineering industry. Prompt submission of quotas to the enterprises and broad participation of collectives in their discussion raised the objectivity of the plans being drawn up. Production preparation, supply, coordination of product nomenclature with orders from trade organizations, and the sale of consumer goods and goods intended for industrial production improved. Production of consumer goods developed at a preferential rate: In comparison with 1983 it increased by 5 percent.

Mutual relationships with associated organizations and enterprises were improved. A commission created by a joint order of the Belorussian SSR

Ministry of Light Industry basically solved the problem of material and equipment supply: All enterprises of light and electrical engineering industry were set up for guaranteed integrated supply by way of territorial organs of the Belorussian SSR Gosnab. The Belorussian Railroad Administration and the Belorussian SSR Ministry of Motor Vehicle Transport assumed special control over delivery of consumer goods to recipients in small lots, and the Belorussian SSR Ministry of Trade reduced the number of such lots to a minimum.

A complex of measures directed at creating the conditions for satisfaction of the main criterion used for evaluation--sales volume with regard for product delivery obligations--produced positive results. Failure to fulfill this indicator has become a rare exception, despite the fact that in 1983, almost half of the enterprises of the sectors that were subsequently included in the experiment were 28 million rubles short in supplying products to consumers.

Now as a result of the work done with associates and with the labor collectives themselves, deductions into the material incentive fund were increased to 4 million rubles. A stimulatory factor--increasing the material incentive fund by 15 percent and the possibility of paying bonuses of up to triple the salary to executives on the basis of the year's results--played an important role as well.

Reduction of deductions into the material incentive fund by 3 percent for every percent shortfall in contracted obligations raised the responsibility of the labor collectives and oriented them on achieving the end result.

The experiment revealed a problem that must be solved without delay. In their efforts to fulfill contracted product delivery obligations, each month from 7 to 10 associations (enterprises) fail the sales plan due to insolvency of consumers. According to the existing procedure a recipient who allows formation of above-standard reserves of commodities and material valuables is barred from loan activity. But this situation does not discipline the recipient--instead, it punishes the supplier. From my point of view we need to solve the problem by furnishing special loans to insolvent customers at interest rates several percentage points higher.

The results of work in 1984 persuasively demonstrated that associations and enterprises of light and electrical engineering industry could work successfully without resorting to the maximum percentage permitting payment of bonuses for the principal work results when product delivery obligations are unfulfilled. There are all the grounds for repealing this "loophole" this very year. At the same time the system foreseen by the experiment for forming the production assortment plans on the basis of orders from trade organizations and other consumers with regard for the results of wholesale fairs has not enjoyed wide application in our republic.

Significant improvements have been made in the republic in product quality. Last year the volume of articles produced in the top quality category increased by 95.8 million rubles or by 18.4 percent in comparison with 1983. The proportion of such products within the total volume reached 21 percent, as compared to the planned goal of 19 percent (the "Quality" program foresaw 19.5 percent). One thousand four hundred thirty-nine articles were certified in the top quality category.

The terms of the experiment encouraged further increase in production of new articles of improved quality bearing the index "N", renewal of assortment and production of especially fashionable goods. The proportion of consumer goods bearing index "N" in the total production volume was 31.4 percent as compared to the planned 22.4 percent. Sales of especially fashionable articles on the basis of contracted prices more than doubled in comparison with 1983.

Assortment was renewed in all subsectors of the Belorussian SSR Ministry of Light Industry. Thus 90 percent of the models produced were replaced in footwear industry. Production of 72 percent new kinds of tricot street clothes, 73 percent sewn, 61.2 percent leather haberdashery articles, 66.5 percent fabrics and 65.1 percent synthetic fur articles was assimilated.

The following items assimilated in 1984 enjoy a higher demand: jacquard carpets decorated with children's themes, "Ivushka" pure wool dress fabric with linen interlacing in a fashionable medley design with special flannel trim imitating Georgette, "Alina" dress fabric made from twisted acetate thread, velvet coats with artificial fur lining for nursery school-age girls, reversible insulated jackets made from tricot linens for nursery school- and preschool-age girls, women's dress shoes with a thin medium-height heel, women's boots with pre-formed vamps and others.

The Mogilev Experimental Footwear Factory, the Grodno Neman Footwear Production Association, the Orsha Flax Combine and the Minsk Progress Tricot Production Association were granted the right to independently approve incentive markups to wholesale prices. In a year they approved markups to prices on 120 high quality articles.

Product quality control at the Minsk Clothing Production Association imeni Krupskaya, the Minsk Progress Tricot Production Association and the Vitebsk Footwear Factory is exercised on-site by the wholesale bases without subsequent control in other republic's trade organizations.

The right to cancel repeat quality control was granted to another nine associations and enterprises. This has important significance to development of the different forms of moral encouragement of collectives. Incidentally, the conditions for material stimulation of associations (enterprises) in different subsectors for product quality require supplementation.

Associations (enterprises) producing products not subject to certification for the top quality category or for the index "N" are correspondingly barred from deductions into the material incentive fund.

A procedure should be established by which a certain share of the assets received by enterprises from incentive surcharges for production of new goods of improved quality bearing index "N" should be transferred into the ministry's centralized fund for stimulation of associated enterprises with regard for their contribution to expanding assortment, raising quality and increasing consumer goods production and sales. In the future it would be suitable to use these assets to also stimulate external associates (trade, supply, transport and other enterprises).

At the same time the existing procedure for distributing profits obtained in excess of the plan due to incentive surcharges for producing articles of improved quality with index "N" is imperfect, and it does not promote reinforcement of khozraschet mutual relationships. In 1984, associations and enterprises of the Belorussian SSR Ministry of Light Industry spent only 2.6 million rubles out of the 37.7 million rubles obtained from incentive surcharges.

Positive shifts toward improving the quality of consumer goods were the result of an increase in the material interest of enterprise collectives. In 1984 an additional 2.2 million rubles were entered into the material incentive fund for raising the proportion of top-quality consumer goods. Additional deductions into the material incentive fund for producing new goods of improved quality bearing index "N" totaled 24.6 million rubles. In comparison with 1983, assets in the material incentive fund accrued from these forms of deductions increased by 34.6 percent.

At the same time the terms of the economic experiment foresee high responsibility for fulfillment of product quality indicators. Fines paid by enterprises in connection with product complaints caused profits to decrease, and consequently they influence the size of the material incentive fund.

Satisfaction of consumer demand and more efficient assimilation of the production of new consumer goods are promoting utilization of the right granted to associations (enterprises) and to the ministry to independently approve prices on the first lots of articles. During the year, prices on 364 types of goods were approved, for a total of 19.6 million rubles.

The quantity of returned and degraded products decreased in comparison with 1983. Thus penalties for low quality decreased by 330,200 rubles. But a number of enterprises are still producing products deviating from the technical standard documents. This pertains chiefly to the Vitebsk Znamya Industrializatsii Clothing Factory, the Polotsk Clothing Factory, the Minsk Mir and Luch production associations, the Dobrush Porcelain Plant and the Bobruysk Footwear Factory.

Acceleration of scientific-technical progress and the degree to which its influence upon the end results of work is raised must be one of the most important criteria of the economic experiment's effectiveness. This should manifest itself first of all in growth of labor productivity. Reduction of product cost and improvement of product quality due to an increase in the technical level of production. Analysis showed that in 1984, the end results experienced insignificant improvement due to introduction of progressive procedures and due to mechanization and automation of production processes. To a certain degree this was the result of the fact that the economic levers and stimuli did not lend fully to acceleration of scientific-technical progress, especially at light industry enterprises. Exclusion of quotas for introducing progressive procedures and mechanizing and automating production processes from the quotas approved for the year also had an effect, as did cancellation of bonuses to executives for fulfilling new equipment measures.

The right granted to enterprises to independently utilize a portion of the assets of the unified fund for development of science and technology to conduct efforts on their own initiative to create new, improved articles, and to compensate for higher outlays during the time of their assimilation, was exercised to dissimilar degrees by enterprises of light and electrical engineering industry. The work situation during the experiment was such that enterprises of light industry could spend, in addition to assets from the unified fund for development of science and technology, a portion of the assets (a rather sizable one--up to 40 percent) obtained due to price markups established for production of new high-quality articles bearing index "N". This source was utilized in extremely insignificant proportions--2.8 percent, as opposed to 40 percent. Applications to allocate part of the unified fund for development of science and technology to enterprises were submitted by only six enterprises, for an insignificant sum--357,000 rubles.

The role and significance of the production development fund, which supports reequipment of production, are growing under these conditions. The absolute majority of the enterprises of light industry are outfitted with obsolete, worn equipment. Over 7 percent of the operating equipment has been working for over 20 years, and 30 percent has been working for 10 to 20 years. The insignificant increase in assets from other financing sources (the production development fund, long-term bank loans and centralized capital investments) do not provide for fundamental reequipment of an enterprise. Moreover the reluctance of builders to carry out specific reequipment jobs and the weak production base of the enterprises themselves for carrying out such jobs on the basis of their own resources are making solution of this urgent problem difficult. Consequently renewal of obsolete equipment is proceeding at an unsatisfactory rate, and the coefficient of equipment wear continues to rise.

Equipment acquired by enterprises as replacements for worn equipment is significantly more expensive than the former. The rate of growth of its cost significantly exceeds growth of productivity. Thus the productivity of an STB-1-250 loom increased by a factor of only 2.2 in comparison with an AT-120 loom, while cost increased by a factor of 13. This is one of the reasons for the decrease in the indicators characterizing the level of utilization of fixed productive capital (the output-capital ratio and profitability). In the first half of 1984 profitability dropped by 2.3 percent in comparison with the corresponding period of the past year.

Another reason for the decline in these indicators is the absence of effective levers and stimuli for raising the effectiveness with which productive capital is utilized.

The established procedure for forming the wage fund often places collectives in unequal conditions. Enterprises that make maximum use of their reserves enjoy fewer possibilities for economizing on the planned wage fund, and consequently for establishing surcharges and additional payments. Calculations showed that a standard for growth of the wage fund in relation to every percentage of growth in net (standard) production that is equal for all enterprises (0:3) cannot resolve this conflict.

Considering that this standard is low in relation to the absolute majority of the enterprises, when it submitted the indicators for 1985 the USSR Ministry of Light Industry increased the standard to 0.6 for existing enterprises. This will make it possible to differentiate the standard for growth of the wage fund depending on the working conditions of the associations (enterprises) and to create the necessary wage fund reserve in the ministry.

Labor productivity increased by 5.8 percent in the sector in comparison with last year as a result of an integrated effort to reequip production, to introduce new equipment, to improve organization of labor and to carry out other measures. The actual number of employees in industrial production was reduced by 1,300 persons below the planned figure. All production in excess of the plan, which totaled 67.7 million rubles, was obtained due to growth in labor productivity.

The savings in the wage fund for industrial production personnel was over 6.7 million rubles in 1984. Owing to the savings, additional payments were made for occupational proficiency and high qualifications to 9,900 laborers and 9,600 engineers, technicians and white collar workers, while additional payments for cross-training were received by 6,600 persons. Pay rates were replaced by salaries of 230 rubles for 368 highly qualified laborers working in especially important operations. One thousand one hundred forty production brigades worked with a smaller number of personnel, for which they were paid a bonus 10 percent greater.

The average wages of industrial production personnel increased by 3.8 percent in comparison with 1983. There was a 0.6 percent growth in average wages for every percent increase in labor productivity.

Inclusion of enterprises of the two sectors in the economic experiment encouraged further deepening of khozraschet and extension of its provisions to the shops, sections and brigades.

Interesting experience in introducing the brigade form of labor organization and stimulation was accumulated at the Gomel Elektroapparatnaya Plant and the Brest Electronic Tube Plant. For practical purposes the latter, which is the base enterprise in the sector for introduction of the brigade form of labor organization and stimulation, completed this work in its main production operation, which employs 99.3 percent of all workers. The plant created a total of 198 brigades, including 164 integrated brigades and 38 start-to-finish (integrated and specialized) brigades. Workers are paid on the basis of a single order covering the end product.

In 1984, 29 million rubles or 75 percent was saved due to a decrease in cost of commercial products. The profit plan was surpassed by 52.6 million rubles. Excess profit and turnover tax totaling 129.4 million rubles were entered into the state budget.

Thirty-five enterprises created financial reserves totaling 3.6 million rubles, or 0.5 percent of their total balance profit. According to the existing procedures this total may be used to replenish internal working capital, to compensate for excessive losses in housing and communal management, to maintain

Pioneer camps and for other purposes. But the enterprises that accrued these assets did not in fact need them. And on the other hand, the enterprises that were not granted the right to form financial reserves due to the absence of excess profit and assets accrued from incentive surcharges did need such funds. In my opinion this lever of the experiment has not yet produced the right impact.

A year of work under the conditions of the economic experiment showed that the associations and enterprises are not yet fully utilizing the possibilities provided to them for raising production effectiveness. They continue to approach adoption of challenging plans and to search for reserves cautiously.

Some shortcomings were also revealed in the premises and terms of the experiment and in the standard documents. Proposals were submitted by union organs for their elimination and for improvement of the economic mechanism.

Some of these proposals received a favorable response and are now being implemented. Thus several indicators have been changed and made subject to approval. Permission has been granted for other trade organizations to sell products that had been passed over by consumers (such products are mandatorily credited to the product delivery plan). A proposal for raising the responsibility and interest of construction organizations in fulfilling plans for reequipment of existing enterprises is now under examination.

The republic's food, meat and dairy industry will join the economic experiment as of January 1985, as will 29 enterprises of four union ministries. Especially persistent attention is being devoted today to carrying out the economic experiment in consumer services.

Jointly with other ministries and departments the Belorussian SSR Gosplan is continuing to study the work experience of enterprises participating in the experiment, and to improve its provisions and terms, and the action of the economic mechanism as a whole.

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PLANNING AND PLAN IMPLEMENTATION

INDUSTRY OFFICIAL INTERVIEWED ON PRODUCTION PLANNING

Moscow PLANOVOYE KHOZYAYSTVO in Russian No 6, Jun 85 pp 23-38

[Interview by PLANOVOYE KHOZYAYSTVO special correspondent O. S. Yefimov with V. I. Zakharov, chief of the Main Administration of Industrial Enterprises, USSR Ministry of Communications, under rubric "A Specialist's Opinion": "Thoughts Before the Congress"]

[Text] The April 1985 Plenum of the CPSU Central Committee, having considered the ways to resolve the key problems of the socialist economy, has emphasized that the chief question today is: how and at the expense of what will the country be able to achieve the acceleration of economic development?

This strategic question has become a critical one in the activity of the ministries and departments, and the enterprises and associations. It presupposes first of all the scientific-technical renovation of production and the achievement of the highest worldwide level of productivity. In this regard we are publishing below the text of a discussion that PLANOVOYE KHOZYAYSTVO special correspondent O. S. Yefimov had with V. I. Zakharov, chief of the Main Administration of Industrial Enterprises, USSR Ministry of Communications, who states a number of important views that reveal certain possible methods for resolving the tasks in the area of the planning of production and the assimilation of its reserves.

Question: Viktor Innokentyevich, you are, of course, acquainted with the manner in which the April Plenum of the Central Committee posed the problem of accelerating the developing of production. In addition you possess extensive material pertaining to practical activity. In this regard we would like to know what is being done at the enterprises in the administration headed by you to assure the more complete use of the economic capabilities, and to assure that the elements of the administration of production are completely understood by every worker and encourage them to show initiative in their work.

Answer: At our administration we have become thoroughly acquainted with the posing of the tasks by the April 1985 Plenum of the CPSU Central Committee. I must admit that those questions have been troubling us for a long time. We think constantly about how to do the job with better results, because our branch -- and not just our branch -- has at its disposal the capabilities for

obtaining considerably greater economic and social results than those that have been achieved today. In the light of the posing of this question at the April 1985 Plenum, the factor which, in our opinion, is the primary one, and which is capable of accelerating the development of the economy at the present-day stage, and of exerting an influence upon people's attitude toward labor, is the use of the capabilities of socialist production not only at the individual work station. Incidentally, we might note that it happens, not infrequently, that it is not really too difficult to achieve better results at the work station. A worker will do his job efficiently and economically, but for the entire technological cycle, for every production sector, shop, enterprise, or association, or for the branch as a whole it is considerably more difficult to achieve any major changes, not to mention the entire national economy. Various factors exert an effect here: supply, the operation of transportation, the sluggishness of the subcontractors, and a multitude of all kinds of "external" factors that allegedly do not depend upon us, but which, in other words, allow one person to point the finger of blame at someone else, saying, "You didn't give us enough, you undershipped, etc." But managing means foreseeing. We may as well admit that it sometimes happens that we too have not foreseen things properly, have not worried about something, and then we look for the "guy at the end of the line." But just try to find him in the long technological chain, in the very complicated network of production relationships. In a word, we are not doing everything to assure that everything that has been planned has been fulfilled. All this is so. But I do not want to talk about individual instances, although they are what life consists of. A large number of instances could be chosen, and they could go either way. And everything would seem to be convincing. I would like first of all to mention the most essential, the most deeply underlying factor of those that are contributing to the development of the economy -- production relations, and the influence that their forms exert upon social production.

It must be said that I was stimulated to have these thoughts after reading the article by Professor A. Petrov, which was published in PLANOVYE KHOZYAYSTVO, No. 1, 1985. I agree with him that it is necessary to seek the most effective forms of production relationships, rather than to travel the well-trodden circle of what are not infrequently one and the same volumetric, basically value indicators. I am speaking about the planning of the work of enterprises, the evaluation of their activity, and on the basis of the experience that has been accumulated in the branch. And in this regard I would like to emphasize that the resolution of the vitally important practical questions of the economy probably requires the further improvement of production relations, or, rather, the achievement of their greater conformity to the level of development of our country's productive forces. That is the question. It is linked with that use of the system of economic laws that would make it possible more completely to carry out the advantages of our system, while somewhat limiting at such time the system of value categories. To a greater and greater degree this is attested to by our branch experience -- as well as the national-economic experience -- that has been accumulated during the past decades. And I mean specifically decades, not a year, not two years -- and not simply an experiment, but live economic experience. This is all the more important because the new five-year plan will be here soon, and therefore there is a growing need for a new approach to the evaluation of the

content of the plan, its quality, and the work of each individual enterprise. It is precisely here that the primary emphasis should be placed, and then upon the industry as a whole.

Question: How, in your opinion, should one evaluate the work of the enterprises?

Answer: The indicator that we should consider to be the chief indicator of the quality of the plan for the enterprise, and for the branch also, is the level of satisfaction of the specific social need for the sake of which the particular production entity was created, and as for the evaluation of the results of the economic activity of the enterprises, that should be based on the reduction of the expenditures for the individual items of production costs. Incidentally, I must state that approximately this same idea was expressed recently by P. Krylov and V. Salnikov in PLANOVYE KHOZYAYSTVO and by the author of the survey in the 29 April 1985 issue of PRAVDA. In general, this idea exists, and the ways to implement it are being worked out and matured.

Thus, on the one hand, we have the satisfying of a specific need, and, on the other, the reduction of the expenditures for the product. And inasmuch as the most important thing for the enterprise is the satisfying of a definite need, the product in physical terms is brought into the foreground. It is necessary for everything to begin there -- the plan, the organization of its fulfillment, and the evaluation of the results. As for the question that was raised concerning expenditures and their reduction, the introduction of that indicator will make it possible not only to evaluate the effectiveness of the work performed by the collectives at the enterprises, but also to evaluate precisely the work of all the superior organizations. For example, an increase in the expenditures because of the low quality of the design documentation being handed over by the developing organizations, because of the failure to realize the funds promptly, etc.

Thus, it is proposed that the work of industry be evaluated according to two indicators: the maximum satisfaction of the need of the national economy for output; and the minimum expenditures of resources.

The application of these indicators will require the improvement of production relations, and primarily the practice of the use of the law of planned (proportional) development. In essence, the indicators that have been mentioned will be feedback indicators and will make it possible in a more precise and more time-responsive manner to correct the mistakes being made.

I want to clarify one point: we are by no means setting for ourselves the task of extending the discussion relative to commodity-monetary relations. Life itself resolves that problem. It is not a matter of definitions -- the country needs the stockpiling of specific material and spiritual values, it needs the organization of the job at hand, it needs a truly efficient understanding of theoretical categories, and it needs the realistic development of the theory of communist construction, rather than only of commodity and value relations. Therefore, if I may get somewhat ahead of myself, I would say that, in order to develop the socialist economic system,

it is important for the plan indicators to correspond to the basic economic law of socialism, that is, the satisfying of the growing needs of society. That requirement is not being met by the instances that are still being encountered, when the plan includes obsolete, poor-quality output that does not go any farther than the plant warehouses. Are we really to believe that this distortion of the functions of planning can correspond to the essence of planned action? Are we really to believe that this guarantees the realization of the advantages of socialism?

In the light of the requirements of the economic laws and the country's needs, the enterprise plans must be drawn up on the basis of the generalization and analysis of the needs, and not simply the figures pertaining to the production of output in volumetric terms.

Question: But how, in your opinion, can one improve the existing practice of planning the work of the enterprises and the fulfillment of the plan? That question is all the more important in view of the experience that has been accumulated in the branch and especially in view of the forthcoming new five-year plan.

Answer: Only by proceeding from an analysis of the needs, particularly the demand, and the possibilities of satisfying them, that is, the availability of resources, it is necessary to determine the assignment for the production of the specific type of output for the particular enterprise, and it must be, I repeat, specifically in physical terms, rather than volumetric ones. This requires, on the basis of the approved norms, rather than quotas, the allocation of resources in physical terms: labor, in the number of workers; tools and objects of labor, in the specific designations and qualities that have been balanced with the plan for the production of articles. Herein lies one of the factors for increasing the mobilizing function of the plan as a factor for accelerating the economic developing, and for carrying out the chief task that was posed by the April Plenum. By this method, although it is a complicated one, it is nevertheless necessary to make more effective and mobilizing the plans for economic and social development. For this purpose it is important to maintain a single requirement: the enterprise plans must be formed in physical terms as the plans for the production of specific -- and the newest -- necessary articles. As for the volumetric value indicators, which we do without during the planning of the enterprise's work and which a greater and greater number of economists have been opposing, they must be the consequence of the prepared plan in physical terms, but not the absolute basis of the preparation of the plan, much less the evaluation of the enterprise's work.

Question: Viktor Innokentyevich, you have expressed some interesting views, but things are not yet sufficiently clear. You emphasized "on the basis of the approved norms [norma], rather than quotas [normativ]." In those words one hears, as it were, an undertone of distrust of quotas, which have their definite purpose.

Answer: Yes, definite, but putting it more concretely: the norms of expenditures of raw and other materials, and of labor. In this role the norm is irreplaceable. The quota, however, can fulfill orientational functions.

But for plan precision it is necessary to have an economically and technically substantiated norm. Otherwise it is difficult to count on the plan fulfillment and the achievement of a saving by means of which one assures the increase in the production of output. This is already in the area of intensification, without which it is impossible to fulfill the task posed by the Plenum concerning the rapid forward movement of our economy. This kind of intensification, one may say, is irreplaceable. It has great prospects. But what is needed is the unification of the efforts of all the participants in production. But what sometimes happens is that the worker at the machine tool is working economically, but the designer or the sector chief has no self-interestedness in reducing the volumetric indicators. This falls in the area of the contradictions that touch upon the chief question with which we began our discussion -- it is a question of assuring that every form that expresses our socialist production relations must correspond to highly developed productive forces. In this conformity lies the pledge of our successful movement forward. Herein lies our specific, completely socialist peculiarity of management. And it must be used. We must learn how to use it. And that is not easy.

Question: Viktor Innokentyevich, you have touched upon a very large problem in our economy -- the conformity of individual forms of socialist production relations to modern productive forces. But you gradually departed from that question and switched over to an "eternally painful" question -- planning indicators.

Answer: That was not accidental, since production relations, as an abstraction in the life of society and collectives, cannot be "felt with one's fingers," if one may put it that way. They are realized in the concrete forms that the indicators are. It is another matter that we have not become accustomed, when speaking about a planned society, about plans and their indicators, to recall immediately the forms of the production relations. But this does not change the situation in any way. Planning is a form of production relations, and the extent to which one succeeds in filling that form with modern content, that is, with the vitally important needs, rather than simply adding onto the achieved volumes, onto articles that not infrequently are obsolete and have gone out of use -- that is a question which is far from a simple one.

For life of man and society it is necessary to have not value volumes, but specific products of labor for the satisfying of the vital needs. In this regard I would like to mention something else. We talk a lot about the changed conditions of our social development, but we frequently speak in general terms and disregard what is in my opinion the most essential feature in those changes. Technology has changed, that is true. Technological processes have changed, and so has man. And this, as has been justly mentioned, is the most important thing. But how did he change? Of course, in his social and spiritual outlook, his education, his cultural content, although, true, this cannot be said about everyone, but in general man has changed. That is an indisputable fact. But the most important thing is that there has also been a change in his demands on production. Not only on the quality of articles, but also upon the working conditions. But the management everywhere has not been concerned about this. What does this mean? It means that it is necessary to improve the plans, that is, the forms of production

relations filling them with social content, with measures for social development. This is very substantial in the development of production relations. But is every collective, every participant in production, pulling the level of his behavior, and primarily his attitude to labor, up to the level that is required by the present-day productive forces? No, it is by no means every one. It is those "details" that constitute the conformity of the attitudes of the people in the sphere of production to the present-day socialist productive forces. But the people in every collective do not always turn their attention to this aspect of the situation. But one should not lose sight of that question. In our country socialism is the social system, that is, its relations prevail everywhere. Consequently, socialist principles must be observed everywhere. That is obvious. There is nothing to argue about here. Therefore the party requires the use of all conditions for accelerating the development of the economy, society, and man.

What is basically clear is another part of the same question -- one must plan specifically that which is needed by society. Otherwise economic life, and social life in general, is impossible. But if the situation were that simple, we would not be having a discussion about it today. But so long as the question of planning pertains specifically to that which the country and man needs, it remains a vital one, and one that does not have any exhaustive resolution. The plans frequently include obsolete output, and that constitutes a situation (that is, their existence in the plan) that it is almost impossible to get rid of. Not infrequently the enterprise itself is happy to have the old output, since the longer it is produced, the lower the costs (and the rebates on the prices have little effect). In a word, the enterprise has a self-interestedness in the obsolete output. But this phenomenon contradicts both the development of productive forces and the conformity of production relations. That is everything has turned out. But how are these questions usually raised at our production conferences? Or are they raised at all? An evaluation is made of the operation of various production sectors, they are cited as an example or they are criticized, but this is done on the basis of indicators that cannot express in the most precise manner in conformity with the requirements of the highly developed productive forces the present-day content of the socialist production relations, or serve as forms of them.

Question: But, evidently, this problem doesn't end with the examples that have been cited.

Answer: Obviously not. The influence that the forms of production relations have upon the development of the productive forces can be traced much more graphically in the example of scientific-technical progress. A more concrete, more effective form of the development of productive forces could scarcely be found. But let us take not the entire totality of production relations. Instead, let us consider the influence of the value categories, or, rather, the volumetric indicators upon scientific-technical progress.

An analysis of the influence exerted by the value volumes of production upon scientific-technical progress enables one to conclude that these indicators are restraining the introduction of new, highly productive technology. Herein lies one of the created obstacles to the technical renovation of production.

Inasmuch as technical progress provides the opportunity to produce output with smaller expenditures, it becomes unprofitable, reducing the volumes of production. Without the elimination of this obstacle it is difficult to open up a vista for the technical renovation of production: there is a distortion of the essence of the production relations in all the areas of technical progress, and especially in construction.

Question: Viktor Innokentyevich, the system of socialist production relations is a single one. Why do you think that is necessary to isolate the correlation or, to put it more precisely, the conformity...

Answer: I would prefer so say nonconformity, or, rather, the lagging behind...

Continuation of question: All right, then -- the lagging of the forms of production relations behind the development of the productive forces precisely in the area of construction... Let's say, for example, in the area of machine-building -- no matter how much farther it goes, it is still the sphere of actually the most developed productive forces. But construction?...

Answer: Are you really surprised? First, I had in mind, first of all, the branches of machine-building -- they determine the prospects for technical progress. As for construction -- that is a topic for a special discussion. Isn't every branch of production linked with construction? But that is not the crux of the matter... Construction is also an area that is industrial in nature. Do you know how many horsepower are present in the equipment that is used at construction sites? Not much less than in machine-building. Except that there it is dispersed over hundreds of thousands of large and small construction sites, whereas here [in machine-building] it is more concentrated. Because, together with the associations, our enterprises number several tens of thousands. That's concentration! True, but a different kind of concentration: one plant will have 50 workers, and another will have approximately 50,000. The personified productive force, as we can see, is different. Incidentally, it is no accident that people mention this, and frequently they propose: every plant or association should earn its own development. But a plant that has already received from the state sufficient equipment to arm 50,000 workers and that has accumulated major productive forces at the expense of the state, will now, according to the logic of the recommendations expressed concerning self-financing, not have too complicated a time in worrying about its own development. But how can the means sufficient for this purpose be accumulated by those enterprises -- which, as a rule, are small ones -- which have not yet been able to get well established on a modern production base, much less a social one? True, the number of workers today does not always sufficiently characterize the plant's productive force, if, for example, it is an automated plant... But there are also others, where manual labor predominates, and the equipment is obsolete, and the social base is weak. As a rule, the proficient workers do not stay there long. Just let a labor collective like that try to "earn" enough for the development of its social base, or for the renovation of production! And yet, according to the Constitution, in relations pertaining to social property, all the members of production are equal. Everyone has equal access to the means of production. In realizing that, that is, in organizing production, socialist society does not make any differentiation. It strives for the

equalization of the living and working conditions of the production collectives, creating the opportunities for the growth of labor productivity and the gross social product, which is distributed according to the laws of social production, including the law of distribution on the basis of the quantity and quality of labor, and the laws of socialist expanded reproduction.

Question: Don't you think that, under the effect of such facts, some worker might get the idea that "production relations," as well as the forms of them, are something abstract, but what he is doing is real work! And yet the production relations develop in the production activity itself, and develop differently. And, we may as well admit it, this by no means happens always in the way that is required. And not infrequently the worker comes up against phenomena that have nothing in common with socialist production relations. Take, for example, instances of figure-padding! And what about "vyvodilovka"? Or, in construction, putting expensive materials into the wall for the sake of volume? Are all these things "socialist"? Is this done in conformity with socialist production relations, or with its economic laws?

But why, when it is a matter of the fulfillment of production volumes, people do not always mention this. And does it often happen at a production conference that mention is made of whether the plan fulfillment conforms in value volumes, without a consideration of the consumer value, to the socialist methods of management?

Answer: That's a very acute question, because the forms of production relations themselves -- I'm talking about the forms, rather than their essence -- are constructed in such a way that, for example, in construction the heavier the reinforced-concrete units are, the more expensive they are, and the farther the distance from which they are brought, the more profitable it is for the construction collective. You heard me correctly -- profitable! Although this contradicts the economic laws of socialism. And this is done in conformity with certain forms of production relations that are represented by definite economic indicators -- how, then, on the basis of these "forms," can one establish order? Because they directly contradict scientific-technical progress and the interest of society in general.

And if the labor collective actually does strive for order, it must not cope with such instances. In other words, socialist order in our economic practice can be established only on the basis of socialist production ties and a socialist attitude toward labor, the principles of which remain unshakeable. They oblige us to take the appropriate actions and make it possible to eliminate all deviations from them. This posing of the question in the social sense is considerably broader than, for example, the recommendations concerning self-financing and the corresponding earnings for those purposes.

Question: But doesn't it seem to you that this question is not really such a new one. Doesn't it seem to you that our practice of socialist development has already encountered something like this?

The struggle against the differentiation of working conditions in society and in the labor collectives at one time accompanied the struggle for the victory

of socialism. But at that time the tasks being resolved were tasks of the transitional period of the struggle for the socialization of the means of production, and the assertion of socialist ownership. Even then one heard certain appeals that were addressed to definite segments of the countryside in counterbalance to the socialist principles according to which the social relations of the countryside of that period were being reorganized.

Answer: But at that time there were actually different social conditions, and different social goals. The struggle for industrialization was in progress. At the present time we are also struggling, but for remodeling, for the renovation of the productive forces. This task can be resolved successfully only by means of "pulling up" the forms of the production relations to the present-day forms of collectivism and the present-day productive forces, which would encourage the collectives to carry out the economic use of resources. Our socialist production collectives have a time-tested method of management -- cost accountability. And one would scarcely think that it is worthwhile to introduce in it any additional concepts that do not always reproduce with sufficient precision the essence of the socialist production relations.

It is important for us to analyze all the possibilities and results of management from the position of its conformity to the requirements of the economic law, and the conformity of the forms of production relations to their socialist essence. It would seem that...

Question: But everything has not yet proved to be completely clarified.

Answer: And it is not surprising, since even this somewhat general discussion that you and I are now having about the way in which, in certain sectors, the forms of the production relations are lagging behind the productive forces is, it would seem, quite insufficient. Because what is behind the production relations? A definite interest, a definite production tie, that is, a specific production matter.

But production relations are not infrequently perceived simply as an ideological concept, although they are actually realized in production, and are one of its aspects. As has already been mentioned, these are live ties (obviously not personal ones, not individual ones), and social ties within production.

Question: As we can see, everything in production is not unrelative to production relations. They are what form the relations among people in the production sphere. They are expressed in specific forms that are regulated by judicial, legal norms, instructional manuals, and methodologies, which, unfortunately, have the tendency to become obsolete rapidly.

Answer: But people have not always concentrated their attention on this real manifestation of production ties and relations. And thus, willy-nilly, there have been created the conditions in which the forms of the production relations lag behind the highly developed productive forces in a particular branch. Nevertheless the factors that currently are absolutely fundamental are labor that has been precisely coordinated, and the result rate of the work day. It is precisely those conditions today which serve first of all as the

expression of the responsibility borne by every collective for the fulfillment of the pledges to the other collectives. And here it is important for the collective to give an account of its fulfillment of the plan in terms of the substantive results that were intended to satisfy the needs of people and of the national economy. Because if, for example, the Ministry of Light Industry is conducting an experiment, but the articles that arrive on the store shelves are items that the customers do not need, then what results can we actually talk about? And are we really supposed to think that shoes are such complicated articles that it is difficult to come up with new styles and assimilate them within a short period of time? It is for this reason that another question arises: are we really to believe that, for the people who are employed in the branches that are connected with the production of shoes, the social relations that have been established do not provide the opportunity to develop in such a way as to produce a good-quality product that actually satisfies the needs of the public? And are we really to think that this requires decades? Or that, over a very short period of time, it is impossible to design the necessary style and then, within a single fashion season, put it "into the production flow"? Because, after all, the commodity is a seasonal one!

Unfortunately there have been a large number of "explanations": there isn't enough of one thing or another -- if it isn't materials, then it is dyes, or rights. But what we need is not discussions. The crux of the matter is not in individual negative facts -- of what, for example, there is a shortage of. What comes into the foreground is the organization, the efficiency of production! This requires modern knowledge. The modern ability to organize. Organization precedes every kind of labor. But what has been specifically lacking first of all in the specific production sectors is modern, flexible organization. And that was mentioned with an exceptional amount of definiteness at the April 1985 Plenum of the CPSU Central Committee.

Question: But how do you explain the shortcomings of the organization of the matter at hand?

Answer: I would like to stipulation one condition. Properly speaking, we have not lost contact with it -- it is production relations. They are not neutral to organization. What is inherent in these relations is, let us say, a diffuseness. Namely -- the attitude toward the job in the plant administration or the ministry, that is, the atmosphere in the superior administrative link, has an effect upon the person's attitude toward labor at the specific work station, at the plant. And it will have different kinds of effect.

Question: Like what?

Answer: Like this... If the funds have not been allocated promptly, or, even worse, have not been guaranteed, if it is necessary to beat people over the head to get components...

Question: Why is it necessary to beat people over the head to get them?

Answer: These are, if one may put it this way, illustrations of organization

-- in this instance, supply. And we must state flatly: in a number of instances, worthless organization.

What about the "pusher" -- that "decoration" in our socialist production ties? What do you think?... Facts like that heat up the elementary unconscientiousness of a certain worker with respect to the matter for the sake of which his job was established, express disdain for social interests and the development of socialist ownership and, if one can express it this way, give rise to a cool attitude to the collective's tasks.

Correspondent: You just said "a cool attitude"... But in order to have at least a cool attitude to tasks, it is necessary, as a minimum, to have tasks. But it sometimes happens that the department exists, the department has people, but as for a job to do, there isn't any. You just try and find out how many people are sitting around in various departments... No, even if we are not talking about individual NII [scientific-research institutes], but right there at enterprises, in departments with fancy names -- in a word, try and find out how many people are not employed productively.

Question: With this kind of situation, do you really think it is possible to introduce order. And when will it be necessary to make the number of workers conform to the volumes of operations or the planned tasks? The departments that we are talking about are not underground ones. They are listed in the tables of organization and are approved by the ministries -- according to the law. Why, then, is it necessary to have all these approvals, all these registrations of official staffs? And, we might remark in passing, if the discussion has come to the point of being completely open -- what about the control measures, the time-motion studies, and everything like that? Certainly all this is done with large "tolerances" -- so that there will be enough "for potatoes," and for the vegetable base, and for every kind of emergency job requiring everyone's efforts (and that happens)...

Answer: It cannot be said that you have meticulously enumerated everything that is linked with that: it is still necessary to have a few people from the factories to go out and milk the cows, and to do other things, and all this is at the expense of those same departments that are not overloaded with work, and we hope it is only at their expense.

But the longer the list of those "alien" matters that are not typical of the particular production entity, the greater the extent to which one confirms the conclusion that these facts and actions not only undermine the order, distort the attitude toward the job, the specialization of production, etc. Everything here is considerably deeper: they distort the relations among the enterprises, and our social relations, thus covering over the inactivity of some and the inability of others to organize. And, in the final analysis, it is society, the social system, that answers for all of this, and the answer is a rather significant one: it is in the form of undelivered output, in plans that are sometimes not carried out...

Question: But what should be done to eliminate that which is most inadmissible, namely, to assure that people do not sit around idle at individual work stations in various departments?

Answer: People say that we should introduce payment per person.

Question: What would that provide?

Answer: Nothing, think. We already have that experience: payment for funds has been introduced.

Question: Then what? Did people begin to use them better?

Answer: Just look at the statistics. A pretty good amount of statistics has already been accumulated. Almost 20 years have passed... That monetary measure probably did not have too noticeable an effect on the state of the economy. And how could it have had an effect, if it is carried out at the expense of society, that is, the state? All these "payments" are included in the prices of the product. They are transferred from one and the same pocket -- the state's pocket. Now people are talking about payment for "labor resources," but what is a labor resource? A person! It turns out that it is necessary to pay for each young specialist. Pay to whom? To the state. At whose expense? Once again, the state's. We are not even talking about the moral-political aspect of the matter. After all, the Soviet Constitution defines the rights and duties of the citizen and the other social concepts that have been won by the nation. And first of all is the obligation of the citizen to work. But it turns out that, despite all of this, one should still have to pay for the person...

Nevertheless, this is not the crux of the matter. The most important thing is that it does not mobilize the person. Not even morally. And to a certain degree it touches upon the question of his obligations. Therefore, when one speaks about a person's attitude toward labor, in this aspect there arises the question not simply of discipline as such, but the question concerning responsibility as a gauge of the person's attitude toward the job at hand. And that gauge is interrelated. It is a kind of "ring." Responsibility possesses integrity. Therefore responsibility should be judged by the attitude toward labor on the part of a single person, or the brigade or collective as a whole. This is a large concept, and its important quality is integrity. The collective's responsibility is guaranteed by the fact that everyone is consolidated tightly with everyone else. It will be necessary to do a bit of work on this in forming the attitudes of the brigade, the shop, and the entire labor collective.

Question: In the light of what has been said, a factor that takes on special importance is the active role of the labor collective, a role that expresses its interest. What can you say about that?

Answer: First of all, it is difficult to overestimate the role of the brigades as the primary labor collectives in which labor is organized and the attitudes of people are carried out in the process of production.

It has also become vitally important to carry out changes in the existing system of paying bonuses, particularly in the brigades. The amount of money available to the enterprise for paying bonuses is determined on the basis of

the results of the work performed by its collective. However, it is further assumed that every worker makes an equal contribution and therefore should receive the average amount of bonus payment that has been established for the enterprise, or for the primary collective, that is, the brigade, where he works. If he has made mistakes on the job, the size of the bonus paid to him can be reduced, and this, as a rule, is formalized in an official document. In essence, for a specific worker there exists a system of "de-bonus payment."

The evaluation of the contribution made by each person can be made only by the collective in which he works. It is precisely that procedure that is employed in the brigades that operate on a contract basis, and that procedure has proven its worth.

But the maximum size of the bonus paid to the specific worker is limited. It seems to us that this limitation must be retained only for the production cell, without limiting the payment to the specific worker. The changeover to this procedure of paying bonuses will create the more objective prerequisites for increasing the activity rate of the workers and will make it possible to exclude the "kettle" method of distributing the bonus, which causes serious harm to the psychological climate in the collective.

In this regard there has been an increase in the role of the public opinion in the production collective in evaluating the work performed by each worker. But, as was already mentioned, the results of production are determined by the successes not of a single brigade, but by the efforts of the entire collective, by the subcontractor enterprises, and by the various branches that are linked by the technological chain. And thus the corresponding forms of the production relations as an integral social system that is based on social ownership of the means of production must correlate to this. Therefore it is so important to reinforce the interaction within the brigade by means of the interaction within the labor collective, and also among the collectives and branches. In this area there is a broad field for the manifestation of the production ties as an integral system and, consequently, the responsibility for the results of social labor. The isolation in the single system of the economic relations is capable of hindering their effectiveness, and hindering the prospects for socialist development. Therefore it is not on the so-called earnings of the individual production collectives, but on the multiplication of the social wealth on the basis of the achievements of the world's highest labor productivity, as was emphasized at the April 1985 Plenum of the CPSU Central Committee, that there is created the material basis of the conditions for the strategy of communist construction, with a consideration of the specific priorities that are taken into consideration in a planned manner, the country's economic development, and the satisfying of the public's material and spiritual needs. From this one can conclude that the brigade, and the labor collective as a whole, like the branch, must have a clear idea of its tasks and must guarantee its contribution to the country's material and spiritual development, and, correspondingly, every level of administration -- from the brigade to the labor collective of the enterprise, the associations, and the branch as a whole -- has been called upon to provide the realistic support for that contribution.

Question: At the Plenum special mention was made of the need to improve the use of the existing resources and the accumulated economic potential. How is the best way, in your opinion, to resolve this task?

Answer: For the development of production, the government establishes for the enterprise the financial limits that are necessary for guaranteeing the rhythmical output of production, the creation of reserves of object of labor and uncompleted production, as well as the limits for capital investments that determine the possibility of obtaining equipment from the government and using manpower for the construction of buildings and other structures. The enterprise's task consists in assuring the most efficient use of the funds that have been allocated to it, in striving for an increase in their effectiveness, and, on that basis, guaranteeing the further development of production. For that purpose use can be made of the funds received from the lowering of the production costs. It is precisely the production costs that are that synthetic indicator in which one sees the accumulation of the results of the reduction of the materials-intensity of the output, the improvement of the use of production capacities, and the increase in labor productivity, and the results of the introduction of the scientific-technical achievements. But it must be admitted that during the past two decades there has been somewhat of a decrease in the attention paid to this indicator, and, as a result, the production costs have been decreasing slowly. But what we have here is a direct dependence -- the less effectively the production capabilities are used, the higher the production costs, and vice versa. And it is not accidental today that people have started again to devote increased attention to that indicator.

It would be important for us to put the emphasis on the substantiation of the funds for the material and labor resources of the enterprise. Therein, it would seem, is the basis of the economical nature of our economy. But how does one achieve that? We have already said: we need well-substantiated norms. But the norms can mean something essential if they are realistically supported.

The allocation to the enterprise of production assets and materials resources and their subsequent use constitute the soil for an increase in the enterprise's independence, which independence steadily, by its economic nature, leads to definite limitations with respect to the government's management functions. The resolution of this contradiction reflects the essence of the relations between the enterprise and society. But if the government constructs its computations for purposes of overcoming those contradictions on the basis of the plan fulfillment with regard to the volumetric indicators, which, in our opinion, do not reflect the entire fullness of the essence of the relations, then what necessarily comes into the foreground here is the problem of the renovation of the products list, in case the longer the particular enterprise produces one and the same article, the smaller the expenditures for its production and the greater the profit. Here the interests are primarily on the part of the enterprise. True, part of the profit does become available to society. But this "coincidence" of interests does not last for long -- it lasts only until the moment when the completely obsolete article just sits around in the warehouses. In this instance the

enterprise had been unable to use properly the independence that had been granted to it, and it left society in a complicated situation.

The logic of this phenomenon is clear: the admissible breadth of the enterprises' independence presupposes the expansion of the monitoring by society of the effective use of the material resources that have been allocated to the enterprise.

Question: The problem of public control over the economic activity of enterprises can be broad, but there is also linked with it the problem of the enterprise's independence. By offering a large amount of independence, on the one hand, and expanding the control, on the other hand, don't we create a new contradiction?

Answer: There are certain justifications for having that fear. But it is also necessary to take into consideration the fact that control over social production is broad because production itself has broad scope. But the control of socialist production is not simply the latest in a series of inspections. It must operate according to the principle of a "self-honing instrument," that is, in production itself there must be created an atmosphere in which it is impossible to work without control. That means that, in production itself, the products list, the expenditure norms, the size of the earnings, and the circle of suppliers and customers -- this entire totality of production ties must be broadly known in the shops, in the production sectors, and in the brigades. There, as the expression goes, things will stick out like a sore thumb. Everyone must know whether or not the plan has been fulfilled, and whether or not a bonus has been authorized. Plan adjustment, and especially figure-padding or other instances of deceiving the government, and particularly instances of thievery or the squandering of the state resources, will be precluded. That is the kind of situation that is needed at the socialist enterprise and in each of its subdivisions. That is wherein lies the essence of the real, rather than ostentatious, participation of each member of the collective in the administration of production, including the setting up of control. The organizations that have been called upon to create that atmosphere are the management -- beginning with the workers in the ministries -- and the party, trade-union, and Komsomol organizations. All the social forms of increasing the rate of social participation in production must be subordinate to it. It is precisely these relations among the management, the workers, and the social organizations that presuppose socialist production relations.

Then the labor collective, like society as a whole, will have less interest in volumetric indicators, but, on the contrary, will be more interested in the real matters as expressed in material and substantive terms.

Question: All this is so. But why, nevertheless, did the volumetric indicators at one time occupy the leading place in the administration of industry?

Answer: It would seem that one of the reasons is that they simplify the interrelations that the planning and distributive agencies have with the industrial enterprises. But we might note that this simplification is not

always advantageous. It is simpler to count and to generalize with their aid, but we have already said, and it bears repeating, that a particular production entity is created for the purpose of satisfying specific needs, rather than simply for the purpose of increasing the volume of production. Workers in the shoe industry or other production collectives have a clear idea of the fact that the increase of their production will not bring joy to anyone if the person does not like the pair of shoes that he has bought.

That is a simple fact! But in it lies the crux of all our production problems, the essence of the turning toward the person and toward his needs. Therefore the analysis of the work performed by any enterprise, by any shop providing personal services for the public, any dining room, or any transportation enterprise during this very important period of the preparation for the 27th CPSU Congress must begin with a specific question: what new features have been introduced into the work practice of the collective to assure that the citizen in socialist society will be satisfied? And not simply satisfied, but also works at his own work station with even greater application of his efforts! Because all the workers in our society are participants in a single production collective. But that does not mean that this commonality makes it possible to confuse the good and the bad, to submerge the sins of some people in the good deeds of others. Therefore the purpose of every collective is to make effective use of the equipment and all the production assets that have been made available by the state for its use for the most complete satisfying of people's needs. Herein, it seems to me, lies the meaning of the basic economic law of socialism. And the gauge of the realization of the requirements of that law as applicable to the activity of the labor collectives, in our opinion, can be determined by the following two indicators for evaluating the work of industry:

- the maximum satisfaction of the need for output that is in demand; and
- the minimum expenditures.

Question: Even with the most ideal indicators, production -- whether it be an enterprise or a branch -- needs administration. What should be undertaken in this area under the changed conditions?

Answer: That question requires special consideration. But administration of the economy is in effect. Consequently there arises a need also to improve it. A mandatory condition for the successful carrying out of this work is the creation of a scientifically substantiated system of norms.

Each type of series output that has been requisitioned must have the following norms per unit of output (according to the USSR standards that are in effect):

- expenditures of labor resources for the branch as a whole, with a list of occupations, proficiency, and labor expenditures in man-hours;

-- technological time required for the duration of the operations (cycle of operations as a whole, with a consideration of all the ministry enterprises that are participating in the production of the output) -- work days;

-- all types of materials resources, expressed in physical terms;

-- types of equipment, time of their use, for the branch as a whole.

In addition, quotas must be approved for the administration of production and the servicing of it, proceeding from the optimal quantity of each type of output to be produced, relative to the minimum expenditures of labor resources.

The norms and quotas must find their expression in the technical assignments for the development of output and must pertain to the in-kind indicators. Nonfulfillment (exceeding) when settling on the basis of the technological-design documentation for those indicators that has been developed and that is recommended for transfer to the plant must be evaluated as the nonfulfillment of experimental-design work, and that, naturally, puts under question the inclusion of the article in the plan. Thus, the assimilation of output that is very necessary to society often drags out for many years. Serious attention should be devoted to this. One must not lose time when dealing with new output, or the satisfying of the urgent needs of society. In this regard it would be desirable to make more stringent the supervision by GKNT [State Committee for Science and Technology] over the preparation of the inclusion of a new article in the plan at the final stage of the operation phase. This also pertains equally to the preparation for the planned realization of programs, that is, the preparation of them for inclusion in the plan.

This pertains to administration by means of planning. But in this regard I would like to return to norms as being the basis of the plan and especially norming. The fact of the matter is that the quotas, as a rule, are approved as applicable to the enterprise's indicators as a whole, rather than to specific articles. But with the introduction of changes in the procedure of planning, and proceeding from consumer value and the labor expenditures, it appears that it is more correct to approve the quotas for servicing and administration as relative to the operations to be executed during the production of the specific consumer value.

With this approach the determination of the conditions that are necessary for the organizing of production will be considered according to the same initial indicator-- consumer value.

After receiving a requisition for the delivery of output and the limits for the basic types of material-technical resources, the ministries and departments prepare, with a consideration of the output priorities, a draft version of the deliveries plan (which is not identical to the production plan), which is balanced with the resources with a consideration of the quotas for reducing labor-intensity and the material-technical resources for each type of output.

The draft version of the deliveries plan is sent to USSR Gosplan with computations of the necessity number [of personnel] and the expenditures of labor for capital construction which are necessary for its fulfillment, and also to USSR Gossnab with the computations of the material-technical resources, including the interministerial deliveries.

Question: You and I have considered many questions. Now it is time to sum up the results: wherein lies the fundamental difference between the existing methods of planning and control, and the proposed ones?

Answer: First of all, it is suggested that the changeover be made to the planning of industrial production on the basis of in-kind indicators. That recommendation is based, in particular, on the planning experience that exists in our branch.

Until the realization of that principle, that is, so long as volumetric indicators were used, individual enterprises, with the purpose of fulfilling the plan with regard to rates of production growth, had to include in the plan the production of output for which there was no great need, for which the demand had dropped. But, despite that fact, that output was included in the production plans because it guaranteed a greater volume of output with lesser labor expenditures. As we can see, not all the lesser expenditures mean the intensification of production. Output that is becoming obsolete, but that requires lesser expenditures, does not guarantee the acceleration of economic growth, and in addition it just sits around at the warehouses.

The introduction of planning on the basis of in-kind indicators is promoted by the tremendous amount of work that was carried out throughout the country to assign to all types of output being produced various codes based on nationwide classifiers, thus making it possible to use them for all types of computations on electronic computers with a consideration of the norms.

Question: What does that provide for improving planning?

Answer: It is difficult to overestimate the importance of this fact. The input into the electronic computers of the norms and quotas for the output to be delivered to the national economy and the public (without the intraministerial deliveries) will make it possible not only to guarantee the proper order in using those norms and quotas, but assure to realize in full measure the capabilities of target-program planning. Moreover, some of the information can be processed at regional centers by the organizations of the territorial administrations of USSR Gossnab.

Question: That is the technical aspect of the question. What about the organizational aspect?

Answer: The new methods of planning based on integral indicators can be organizationally set up successively, beginning with the small-series production entities and branches having a small number of items on the products list.

But it would seem that at the first stage of the changeover to planning on the basis of in-kind indicators, it is possible to allow the use also of volumetric indicators, but only as secondary ones that are taken into consideration on the basis of the in-kind indicators, and, naturally, do not determine the organization of the production plans. In addition, they can serve for the purpose of taking into account the economic activity that is to be planned by the traditional method. But by the second stage it is necessary to have the complete changeover to the use of in-kind indicators, which changeover, we might note, makes it possible to reduce sharply the number of administrative personnel, inasmuch as the accounting of the production of output in physical terms is basically organized and is the primary source for determining the indicators in monetary terms.

Question: In addition to the methodological aspect of the problem that has been posed, it is necessary, in our opinion, also to reveal certain economic characteristics.

Answer: One's attention is drawn by the fact that one of the chief factors for an effective system of administration of production is the precise definition and fulfillment of such conditions as labor-intensity, quantity, technological level, specialization, etc.

But I would also like to return to the organizational aspect of the matter. And I would especially like to emphasize the fact that USSR Gosplan approves for the ministries a limited number of indicators in physical terms and volumetric indicators. From then on, the "chain" of action is generally known.

The Ministry, proceeding from the established volumetric indicators, approves the latter for the main administrations and the VPO [all-union industrial associations]. The main administration approves for the enterprises the volumetric indicators and the preliminary products-list plan. The balancing of the production plan is guaranteed on the basis of the planned individual output of volume of output per industrial-production worker and the planned volume of production in monetary terms; the balancing of the means of production (objects of labor) is carried out in physical terms. It is natural that at such time the concept "commodity" includes all the consumer values to be created within the ministry, including those which cannot become a commodity, since they are objects of labor to be created by one enterprise for another enterprise that is part of one and the same association.

When touching upon questions of wages, it must be said that the improvement of the forms of wages must be aimed primarily at guaranteeing the conditions for reducing shortages in the country, and for creating stable objective conditions for fulfilling the requirements of the basic economic law of socialism: the raising of the level of satisfaction of the needs of the public and the country's national economy for the output of industry and the other branches, and the principle of distribution based on labor.

It is also desirable to consider the possibility of paying wages to workers for the fulfillment of specific functions, that is, to define precisely the

composition of the operations and to pay wages not for the job that is occupied, but for the volume of operations to be fulfilled. In the event of fulfillment of additional work, a bonus should be established, and for continuous longevity at the particular work station, longevity pay. The longevity pay is to be established on the basis of the work at the particular work station. If the worker has been transferred to another work station, the longevity pay is not established (except for transfers resulting from production necessity).

A worker who is fulfilling the work entrusted to him and who is occupying a specific job assignment, naturally, has a claim to a regular increase in his wages within the limits of the established bracket in the table of organization. The increase in wages in this instance is additional pay which, as a rule, is linked with payment for the quality of work that is the consequence of experience.

Thus, the increase in wages, with the volume of operations remaining unchanged, is concealed longevity pay.

And also... The increase in the automation and mechanization of production nevertheless results in the increase in the share of the administrative-management apparatus (AUP). However, the size of that apparatus is isolated in a percentage relationship to the number of workers, and the management of the enterprises does not have any self-interestedness in reducing its size. There are no quotas for the new conditions of their work. In this situation it is possible that the rates of technical improvement of the carrying out of those operations will be restrained.

Question: And so, what basic conclusion follows from everything that has been said?

If we understand you correctly, you link the chief factor in the development of the economy with the planning and evaluation of the work performed by the enterprise with regard to a group of articles expressed in physical terms. That, probably, would seem to be logical: the reason why the enterprise was created was to produce a specific product.

What would you consider to be necessary to add to what has been said, with regard specifically to the experience in your branch? Because it is precisely that which is of the greatest interest.

Answer: It is necessary to note one important peculiarity of our branch -- more than 80 percent of the output produced is delivered to communications enterprises. This, naturally, differentiates the formation of the products-list plan for shipments, which is balanced with the material-technical support. On the basis of requisitions sent in by the main administrations for the delivery of output, a draft version of the production plan (based on the products list) is prepared for each plant. It must exceed the enterprise's capacity that is necessary for plan fulfillment by 2 to 20 percent with regard to labor resources, depending upon an analysis of the sales of the output that is being planned for production.

The draft version of the production plan is discussed in the shops and the plant sectors and, together with recommendations and comments, is submitted to the main administration.

The recommendations and comments that have come in from the plant are considered at the departments of the main administration, and, prior to the approval of the plan, obviously, a check is made to see that it balances with the allocated labor resources.

With that purpose one takes into consideration the enterprise capacity in norm-hours that is necessary for fulfillment of the products-list production plan; this is done on the basis of the labor-expenditure norms and quotas for the reduction of the labor-intensity depending upon the series nature and year of production of each article, which norms and quotas have been approved for each article. The production capabilities ("capacities") of the enterprise in norm-hours are determined on the basis of the availability of work stations or the number of basic production workers, and can change only if there is a change in the number of workers or work stations, that is, the structural shifts do not influence the capabilities for the production of output. On the basis of the prepared balanced plan, all the value indicators are taken into consideration.

The wage fund is computed on the basis of the wages to be paid per norm-hour of the base year of the five-year plan, that is, by dividing the enterprise's wage fund in the base year by its productive capability (capacity) in norm-hours. It is refined on the basis of regional peculiarities.

The effectiveness of the accepted system of planning and evaluating the work of enterprises is characterized by the following indicators.

The level of satisfaction of the needs of the communications management for the entire products list constituted, by the beginning of 1985, 80 percent as compared with 40 percent in 1980. Also, all new developments are transferred for introduction immediately, as the design documentation is ready; moreover, the experimental models, as a rule, are manufactured at the plants.

The creation of the objective conditions for plan fulfillment makes it possible to evaluate precisely the quality and level of the managerial personnel at the plants. For that purpose one employs a system of evaluating the quality of the work performed by the managers, which system is used when determining the size of the bonus.

True, the effectiveness of this kind of planning is influenced by the incomplete provision with shipments of materials and components to be used in the articles that are being newly developed, as well as the insufficient equipping of production with modern highly productive equipment.

Question: So you link the chief factor in the development of the economy with the planning and evaluation of the enterprise's work with regard to a group of articles expressed in physical terms. So long as we were discussing an enterprise, that posing of the question seems logical. The reason why the enterprise was created was to produce a specific product. But what about the

national economy? Its output is extremely varied. How can that output be reduced to single gauges?

Answer: That is not a new question. That is why, in conclusion, I would like to emphasize that the national economy needs an accounting of output in monetary terms also. Otherwise we cannot determine the gross social product.

At the present-day stage it is completely obvious that we need to encourage the further improvement of socialist production relations. The application of in-kind indicators in planning the work performed by socialist enterprises, the accounting of consumer values, constitute one of the essential steps along that path. And the sooner we succeed and the farther ahead we move in this direction, having in mind the emphasis of production planning on consumer value, the more complete use will be made of the conditions that have been created in the country for resolving the task that was posed by the April 1985 Plenum of the CPSU Central Committee -- the achievement of an acceleration in the country's economic development.

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INVESTMENT, PRICES, BUDGET AND FINANCE

BUNICH ON ROLE OF WHOLESALE PRICES IN INCENTIVE MOTIVATION

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[Article by P. Bunich, corresponding member, USSR Academy of Sciences, under rubric "In Anticipation of the 27th CPSU Congress": "Wholesale Prices and the Mechanism of Providing Incentives for Collectives"]

[Text] The mechanism of wholesale prices is a mirror that reflects and refracts the fundamental principles of the methods and means of management; at the same time that mechanism is also an instrument which itself, within certain limits, exerts an influence upon those principles.

Paradoxes of the "Expenditure" Approach

"Expenditure" wholesale prices are the response to the providing of incentives "for the plan." Actually they do not so much play the role of an economic lever that is based on the socially necessary expenditures of labor, as they fulfill a passive-accounting, universally-summarizing function of the monetary unification of heterogeneous expenses and products¹. These prices are constructed in such a way that they enable the enterprises to pay for the actually expended raw and other materials, to form sufficient wage funds, and to compensate for other costs. The practice of pricing, of orienting only on the "expenditures," makes it possible to increase the expenses, and to preserve low labor productivity. This leads to the adding onto the excess costs of an unjustifiably high profit, which does not correspond to the effect of the application or usefulness of the commodity. Also, the profit is added on not as a whole, but by parts: for the making of payments to the budget (putting it another way, it turns out that, at first, society gives the enterprises the funds in order to make the payments to it, and then receives them, and now they appear to be earned); for the formation of economic incentive funds (which thus are "packed" into the price before the production and the effect, rather than being created depending upon them); for the self-financing of centralized investments (the self-financing here is an apparent one, inasmuch as a greater sum is included respectively in the profit and price for the branch for which major capital investments are planned); and for covering the increase in the quota of the enterprises' own working capital (in essence it is not their "own," but, rather, has been previously allocated from above by means of the centralized increasing of the profit). The sphere of redistribution is brought down to the line beyond which it is necessary to "request" funds only in those infrequent instances when it is absolutely impossible to include them in the price of the output being produced. The

budgetary flows which, to a considerable degree, have been freed of the "through financial shipments" (from the enterprises to the budget, and back again), become relatively shallow.

In the situation when the price does not control the expenditures, but gives an indulgence for their increase, when the price does not protect the consumer, but satisfies the producer, the latter, in essence, himself evaluates the results of his labor and evaluates them, of course, in the most benevolent manner. In this situation, naturally, there appears the illusion that things are going normally and well for all the enterprises, or, in any case, for almost all of them.

Let us take, for example, estimates for construction operations and the purchase of equipment. The customers with enviable lavishness pay the marked-up expenditures and add to them the bonuses that are computed for the construction workers and the deliverers of the equipment even if the plans are disrupted. The bonus is included in the price not simply as such, but, in the maximum size, and this is achieved by increasing the planned wage fund and by establishing a planned material-incentive fund at the maximum level².

If the wholesale price exceeds the effect of the application of the commodity and proves to be detrimental to the consumers, it is liquidated either by the issuance of subsidies that undermine the cost accountability, or by increasing the wholesale prices of the output of those who have "suffered." Then, naturally, the consumers who are next in line began to claim the same benefits, and it continues that way along the entire chain -- back until the production of the final output. As a result the wholesale prices receive a tendency toward growth or they drop less slowly than is possible and necessary. For example, the wholesale prices and energy rates that were introduced in 1982, as a composite result, rose by 11 percent³. It is, of course, impossible not to take into consideration the objectively influenced increase in expenditures as a result of the necessity for conversion to more expensive deposits of natural resources and the increase in the distance between the regions of their extraction and their consumption. There is also an increase in the ecological costs, and the expenditures for the improvement of working conditions and for the giving of creative content to it. Taking all this into consideration, it is necessary, however, to proceed from the fact that the rising costs must be compensated for by the effect of technical progress, if for that purpose there has been created a strong economic mechanism, including a value mechanism.

Thus, incorrect information has been coded in the "expenditure" prices. The calculations that have been made with the involvement of that incorrect information -- calculations of the amounts of output, the national income, labor productivity -- and many other indicators prove to be imprecise. In particular, in the alternative of the "expenditure" prices many of the ineffective plans for capital construction appear to be effective. They allegedly "conform" to the normative coefficient of economic effectiveness. But one "detail" is lost sight of here: at first that coefficient was added to the expenditures and was included in the price, and then it was safely deducted from the very same values.

It may seem that high prices narrow the demand and eliminate shortages. At first glance this is an acceptable assertion, but one should not limit oneself to the first glance. If one acts in specifically this manner, it is discovered that the prices are automatically included in the plans for financing the consumer enterprises and therefore they do not restrain the demand. With the aid of this mechanism the enterprises guarantee themselves financial sources for inefficient expenditures -- the purchase of excess materials and unnecessary equipment, and the payment of excessive wages and bonuses. Although everyone seems to be satisfied, in the process of production supply and in trade it becomes apparent that the excesses that have been legalized in financial means cannot properly receive the commodity cover. The unjustifiably overstated demand for commodities encourages the further increase in the wholesale prices of them and lessens the struggle for their high quality. As a result, the high prices and shortages influence one another, but in general do not preclude one another.

The principle of summarizing the expenditures when determining the prices in a number of instances also leads to their understatement. This pertains to output for which the expenditures are less than the results of their application. In such instances there is a concealment of the actual effectiveness, the attention of society is not attracted to the advantageous spheres of application of efforts, and favorable conditions are created for the wasteful use of the results of social labor. It is precisely this situation that developed with what were, until recently, the understated wholesale prices of petroleum, thermal energy, lumber, and other output. But even now the excessively low wholesale prices have not been eliminated.

For example, as a consequence of the orientation on the local, comparatively low expenditures, Ekibastuz and Kansk-Achinsk coal, which is better with regard to effectiveness, is being sold at prices which, when expressed in terms of one ton of standard fuel, are 3.4-3.8 times lower than the average coal varieties. True, even in this situation there is a profitability which is greater than the average for the branch, by a factor of 2.4-2.6. But this is by no means a reason for selling coal at inexpensive clearance prices. And it must also be noted that the sale of output with increased effectiveness at reduced wholesale prices does not preclude excessive expenditures for it, especially when there is an overstated profitability⁴.

There are also mixed alternatives, when low "expenditure" prices combine with the transferring to the benefit of the producers of the national-economic effect that is created by them. In a large-scale experience, the increase in NChP [normative net output -- hereinafter NNO] at enterprises of Minelektrotekhprom [Ministry of the Electrical Engineering Industry] is determined by the addition of the effect of the output of a higher category of quality in the consumption sphere. But no consideration is taken of the fact that, at the stage of purchase of the raw materials, equipment, and other producer goods, the prices possibly were also understated, and therefore the producers' losses exist alongside of the gains, but it is unknown which are greater. As a result the additional NNO and its encouragement can become a "present."

If the input and output prices have been equally overstated, the "addition of the effect" can also make the position of the supplier appear to be better, since he himself originally purchased the initial materials without those markups. In addition, the standard markups for the suppliers do not reduce the effect of the consumers, who, in turn, point to excessive results and are given incentive payments for them.

A peculiarity of "expenditure" wholesale prices is the primordially approximately identical profitability of all commodities and its buildup in proportion to the prolongation of the time period for producing them. Inasmuch as the most convenient prices are long-term ones (they provide the opportunity to avoid frequent price reforms and cumbersome, labor-intensive recomputations of the planning assignments), this buildup gradually achieves larger and larger dimensions.

The existing prices do not preclude even a completely equal profitability rate. For example, since 1984 the profit in construction has been established in the amount of 8 percent of the total amount of direct expenditures and overhead expenses. In substantiation of a single profitability norm to be included in the construction estimates, the argument is cited that are construction operations are purely executive ones and must be of a single nature. But in actuality the latter, in a number of instances, must be especially him, and deserving of economic priority and support as early as the estimate stage. In addition, the construction organizations are not identical with regard to the level of technology, technological processes, or the organization of production, and the equal profitability does not encourage any upsurge. The wholesale prices for the output of instrument-building, and machine-building for light and food industry, and for light industry, which were introduced in 1982 also provide for all the articles equal profitability. An absolutely equal profitability rate is achieved by accounting prices.

The "expenditure" prices in the processing branches are computed not for every individual enterprise, but on the average, with the exception of the producers that are oriented on expenses, which producers are the only producers of some kind of article, as evolves not infrequently from the superconcentration of production. As a consequence of the orientation of the prices on the average conditions, the profitability at the enterprises in the processing branches is differentiated because of the dissimilar indicators of their work.

In the extractive branches the differences among the enterprises are largely objective. Therefore in them the average prices have been replaced by zonal ones -- prices for the individual coal basins, oil fields, gas-extraction regions, energy regions, etc. There exist a rather large number of examples of the establishment of prices based on the closing expenditures. For example, in accordance with the temporary Standard Methodology for the Economic Evaluation of Deposits of Minerals, which was approved by GKNT SSSR [USSR State Committee for Science and Technology in 1979, in order to compute the prices one employs closing expenditures if the deposit has been included by USSR Gosplan in the list of objectives that are to be assimilated prior to the years 1990-2005 and its detailed prospecting with the existing price level is unprofitable⁵. Since 1982 the prices of petroleum and gas have been based

on the highest costs. In 1983, markups were introduced, to be added to the purchase prices of meat, milk, grain, sugar beets, potatoes, vegetables, and certain other products when they are produced under worse conditions. Thus the production of output with closing expenditures becomes rather advantageous.

As we can see, nowhere does one use only the prices that result from better conditions. This orientation on very high effectiveness is up to the capability of only the most advanced collectives. As for the others, it "drives them into the corner." Another bad feature is that the introduction of this kind of prices would enable the consumers easily to pass examinations of effectiveness even when there are low results in their activity.

Profitability is also somewhat differentiated in the interbranch view. This occurs because of a number of reasons: the dissimilar needs of the individual branches for growth; their specific place in the economy (for example, the prices of the output of Minsel'khoz mash [Ministry of the Machine-Building Industry for Agriculture] are subject to comparatively rigid limitations that are influenced by the special state support of agriculture); the establishment of identical prices in terms of one calorie for various types of fuel, when there are different expenditures for it; various rates for the reduction of the production costs from the moment of establishment of prices until their re-examination.

All these differences do not exert any substantial influence upon the evaluation of the activity of the branches and enterprises. For some of them, planned subsidies are issued, lowered payments to the budget are established, and they do not have to pay for funds. For others, on the other hand, high deductions to be paid into the budget are established. This creates a certain redistribution, but, in essence, nothing changes: the production of an outstanding, average, and poor branch or enterprise, in the final analysis, not infrequently appears in approximately the same light. In exactly the same one the situations appear similar when, at certain enterprises, it is not kopecks worth of metal that are being cut into shavings, but rubles, which then are added together to constitute thousands and millions, but at other enterprises the commodities are produced out of inexpensive substitutes. In the language of economists, this situation is called the lack of the mechanism of reducing individual expenditures to the socially necessary ones. But in the broader view there are justifications for speaking about the creation of conditions for social dependence, when some achieve prosperity at the expense of the efforts of others.

The degree of arbitrariness of wholesale prices is greatest when they have been established with an orientation toward the minimal profitability. Prior to the 1967 wholesale price reform this procedure was of universal importance. The position that prevailed was the one in accordance with which, in the prices, it is necessary to stipulate a nonfalling level of expenditures and profit. Everything that necessary above it must come in by means of special financial injections. Prices were substantially understated. At the stage of the final consumer commodities, the understatement was becoming tremendous. In order to bring together the overall balance sheet for the value of the surplus product, the total amount of the turnover tax increased. However, the

fact of the understated evaluation of the producer goods inevitably exerted a negative action. The understated expenditures justified the understated effect, and the sphere of nonreturnable redistribution that weakened cost accountability was expanded. In 1967 there arose a new tendency -- toward complete profit. The turnover tax was squeezed to a realistic size. For example, the gross profitability of kolkhozes and sovkhozes reached 21 percent in 1984, as compared with one percent in 1982.

The "expenditure" prices take into consideration the quality of the commodities. But, as befits them, they reflect precisely the expenses to improve the quality, rather than the result that was obtained thanks to them, that is, not the effect of the article in consumption. Therefore these prices can include expenditures which are not confirmed by the results, or that bind the consumer to a high quality that is burdensome for him.

The changeover to the indicator of NNO has somewhat reduced the interest of the collectives for the increase in "expenditure" prices, inasmuch as the material costs have ceased to be considered when determining the wage price in terms of labor productivity. Actually, during the time of the experimental checking of that indicator, particularly in the Glavmospromstroymaterialy system, the specific expenditure of cement, metal, and crushed stone decreased by 3 percent, as compared with one percent during the analogous preceding period.

But, first of all, the NNO is also an "expenditure" price, except that it is not complete, but only partial -- in the amount of the expenditures of live labor. Its share is, on the average, 40 percent of the price of the commercial output of machine-building, building materials, and the timber and woodpulp-and-paper industry. The greater the salary and the profit, the higher the NNO. Although that price, like the complete price, is of an average nature, after the computation of the total volume of the NNO the specific wage fund is established not on the basis of single quotas, but of individual ones that firmly establish the overstatement of the wage funds that has occurred. In this scheme the prices do not restrain excesses in the payment of labor.

Secondly, economics cannot limit itself to the use of "truncated," partial prices. It also needs complete prices. Therefore, the application of NNO coexists with the functioning of a price that reflects the value of the raw and other materials, etc. And this circumstance maintains the interest of the collectives for the increase in materials-intensity. Thus, in rec etc. And this circumstance maintains the interest of the collectives for the increase in materials-intensity. Thus, in recognition of an economizing of raw materials, as is well known, bonuses are paid. The saving in payment for assets also remains with the enterprises. The production of new technology on the level of the best domestic and foreign models enables the enterprises to include the obtained saving of material and labor expenditures (as much as 50 percent) in a special intravalue incentive markup. Overstatement of the material expenses helps the collectives to obtain the maximum gain. Further, when drawing up the plan it is easier to "accelerate" the required growth by means of the articles with high material costs. The paying of bonuses for surpassing the sales plan also makes advantageous the overfulfillment of the

assignments first of all for the materials-intensive items. In order to achieve the maximum fulfillment of the indicator of the contractual nomenclature, the output which, once again, is profitable for the enterprises is the materials-intensive output, the production of which makes the greatest contribution to the total fulfillment of the shipments plan. Profit in excess of plan is especially needed. Its chief source is the economizing of material expenditures. And that economizing is greater in proportion to the cheapness of the raw materials being used. For example, in the normative arbitrarily-net output (NUChP [hereinafter NANO]), the overhead expenses are computed depending upon the direct expenditures that include the value of the materials. The higher it is, the larger the NANO. The "gross" determines the "category status" of the organizations, that is, the prestige of the collectives and the salaries paid to the administrators. It turns out that although the incentives for the growth of material expenditures have lessened, they still are rather strong. The increase in material expenditures ceases to be profitable for computing the wages and the labor productivity, but it does not become unprofitable.

That is why, for example, machine builders who use the NNO indicator require that they themselves thicken sheet metal where it is possible to get by with thin. One enterprise that encountered difficulties in selling thin sheet metal, in particular, was the Cherepovtsy Metallurgical Plant, which demonstrated an "anti-gross" initiative. In response to its recommendation concerning the possible delivery of thin sheet metal, more than 100 official refusals came in, and many machine-building enterprises simply failed to reply, that is, they responded with the very same refusal, except that it was silent. The customers also do not want to accept the lightened pipes made by the Volzhsk Pipe Plant.

The increase in expenditures was encouraged by the profit that was included in the price of specific articles in proportion to all the expenses. In order to synchronize the actions of the NNO indicator with price determination, it has been established that from now on profit is to be determined proportionately to the total amount of depreciation deductions and wages. That is good for the formation of incentive funds, but it does not correspond to the needs of forming production-development funds. The higher the capital-output ratio of the branches and products, the lesser the opportunity to satisfy their needs for sources of further development. The price becomes a limiter of NTP [scientific-technical progress]. In order to eliminate it, it is better to form the profitability by proceeding from two criteria: partially to wages, and partially to material expenditures (if it is difficult to find specific expenses of the production funds).

Thus, at the basis of the "expenditure" prices lies a principle that is oriented toward the actually developing situation -- the principle of their "disintegration" for purposes of satisfying the needs of the enterprises for expenses, payments, and sources of expanded reproduction.

It is not excessive to note that the application of the principle of summarizing the expenses when determining the wholesale prices was censured as long ago as the very first years of socialist construction in our country. VSNKh [Supreme Council of the National Economy] chairman F. E. Dzerzhinskiy

mentioned the negative aspect of excessive staffs and expenditures for fuel, raw and other materials, and tools of production that disagree with the result that goes into the direct consumption. "...According to our computations, it turns out that the more we release into the air, the more output we have and the greater the productivity is"⁶.

Payment for the "Commodity Effect"

Encouragement for the level of effectiveness of production requires the introduction of prices that reflect the effect of the commodities being created and the services being rendered. The higher these prices are, the greater the effect of the output in the sphere of its application and the greater the extent to which the articles produced satisfy the needs of the economy and the population. By means of price one can exert an effect upon the producers, so that they take into consideration not only their own direct effectiveness, but also the adjusting effectiveness of influence of their articles upon the bordering spheres. For example, a truck can be good for producers, but can be harmful to roads (as a result of the increased load upon the axle). This must force the people in motor transport to pay fines to the roads. Consequently, it is logical to lower the prices of those vehicles that are delivered to them.

A price that transmits an effect to the producer that will not be realized by the consumer until the future needs reduction. The total amount of the price and the interest for storing in the bank the proceeds that have been received ahead of time must be equal to the full effect. Putting it another way, what acts as the advance evaluation of the commodity is the complete (running ahead) price, minus the potentially computed interest. Without this "game for reduction," the complete price together with the interest will exceed the effect in the sphere of introduction and will mean that the customers are forced to overpay the sellers. This problem will disappear by itself when selling articles on the installment plan, when the first payment is equal to the first part of the effect.

The effect of the application of the commodity that arrives at the processing branches is, in principle, equally accessible to all customers. The particular article, taken in and of itself, does not promise any of them any special, selectively given, or objectively reinforced advantages. Everyone can and must obtain from the purchased output the identical return. The first customers, possibly, will prove to have a loss, then they will reach the norm, and those at the final stage will surpass it. On the average during the living cycle of the commodity the average level of its use will be available for everyone. Therefore in the processing branches a price that proceeds from the introduction effect must be oriented toward the average return.

There is a different situation in the extractive branches. The advantages of the best customers in them have been recorded by nature and in principle are insurmountable. If the worse ones want to come out ahead, no one prevents the best from doing the very same thing and maintaining the distance. Therefore in the extractive branches the prices of purchases gravitate not toward the average values, but to the maximum ones, that closely abut the circle of the

articles that are necessary to society and that have been included in the consumption plan.

The prices that reflect the effect cannot be viewed as prices in general that deny the expenditures. We have in mind not that the latter should be ruled out, but, rather, the need for the joint consideration of the effect and the expenditures, and the coordination of the "force of resistance" and the "force of the motor." We are confronted with two sides of the same coin. Whereas the prices of the "effect" deal with what society needs, what has to be produced, the "expenditure" prices another and also very important question: how should they be produced?

The achievement of the required generalized result occurs by means of the balancing from the opposite direction of the results and expenditures. The average effects, as it were, find themselves the average "expenditure" partners. The closing effects, upon encountering the closing expenditures that correspond to them, join the closing sphere of return with the closing sphere of the sale of output. All the consumers and producers in the extractive branches that are under conditions that are better than the closing one, but that purchase commodities at low prices and sell them at high prices realize the rent that has been caused by the advantageous location with respect to the raw-material and sales markets, and by the favorable natural conditions, including closeness to natural transportation arteries.

The equality of the prices of supply and demand, and of consumption and production, the appearance of equilibrium, is a sign of optimization. Optimization is possible in the tendency as the pivotal moment of movement, but it is not guaranteed at each point of it. The discrepancies, the differentiation of profitability, its deviations upward and downward from the average value, act as a signal system that serves to put it on the best trajectory.

The pricing agencies approve the wholesale prices, taking into consideration the effect and the expenditures authorized to them. In accordance with the Methodology for Determining Wholesale Prices and Norms for Net Output for New Machinery, Equipment, and Instruments Intended for Technical-Production Purposes (hereinunder we shall refer to it as Methodology for Determining Prices of New Technology), wholesale prices of the objects indicated are approved within the confines of the economic effect of new output with an average reduction in price per unit of beneficial effect of no less than 15 percent. Thus there occurs a lowering of the "price of the effect" per unit of it as compared with the alternative of selling the new technology at the previous specific price, when the new technology becomes more expensive as it improves, but, in terms of each unit of beneficial effect, it remains equally profitable with the old. The lowering of the price is feasibly applicable to technology that provides a large effect with comparatively low expenditures. The profit derived by the producer of the particular technology remains sufficient and admissible, despite the fact that it gives as a "present" part of the effect to the consumer. But for the producers of the old technology with its stabilized expenses, the reduction in price in terms of each unit of usefulness proves to be an unbearable burden. Their profit falls below the acceptable level. Thanks to these economic consequences, the manufacturers of

the better output remain viable, and the inferior output is economically "washed out." The progressive articles win the sales market, and the obsolete ones "leave the ring."

The consideration in prices both of the effect and the expenditures led to a situation in which, in 1982, the profitability of new commodities constituted 15.4 percent, as compared with the average of 14.6 percent. A higher norm for profit was established in the prices of light-section, hot-rolled, cold-rolled, converter, and transformer steel, zinc-coated tin plate, and bent shapes. Depending upon the economic effect, prices were determined for multipurpose H-beams, light-duty beams and channel bars, and high-accuracy shaped cold-drawn profiles. The prices encourage the production of concentrated and complicated fertilizers, high-grade lacquer and paint materials, and dyes.

At the same time the new prices of the 20-horsepower tractors produced by the Pavlodar Tractor Plant imeni V. I. Lenin, as a consequence of the insufficient effectiveness of the machines being produced, were reduced by more than 10 percent as compared with the enterprise design plan. Thus, the excessive expenditures did not receive their value recognition.

The methodology of determining the prices of new technology stipulates that the producers of articles that correspond to the best domestic and foreign models receive, over a number of years, an incentive price markup, the size of which depends upon the economic effect of the new technology. As much as 50-70 percent of that effect forms the markup (the gauge of the distribution of the effect between the producers and the consumers, obviously, must be differentiated depending upon the share of the new technology, the needs for lowering its prices for purposes of selling an increased mass of commodities, and other factors)⁷. The minimal effect that gives the right to compute the markup is defined at 15 percent; thus, small increases in it are precluded.

The markup is used for purposes of providing an incentive, and is channeled into the YeFRNT [Unified Fund for the Development of Science and Technology] and the state budget. As for additional expenditures that were required for increasing the effectiveness of new technology, they are covered by the basic wholesale price, which is oriented toward the costs of the first year of series production, together with which price the markups are introduced⁸. The total amount of these values provides, in essence, the final price to be paid by the consumer, who compensates both for the new expenditures and for the new incentive funds. Thus the effect controls all the expenses.

Previously a different procedure existed. The markup, as now, was of an incentive nature. But the expenditures of the first and second years of series production were covered from the YeFRNT. As a result, new output became artificially cheaper, and old output, more expensive. With this situation, the enterprises' request for additional resources from the YeFRNT was overstated, since those were resources that had not been earned, which had to be obtained from the consumer, but, rather, were to be redistributed without compensation. If neither the wholesale prices nor the markups covered the additional expenditures to be compensated from the YeFRNT, the incentive means obtained the opportunity to occupy not only "their own space," but also

the field of "invisible expenditures," and to go beyond the confines of the earned income.

In the literature there have been proposals to include in the markups, in addition to an incentive, the additional expenditures⁹. This approach evolved from the fact that the markups in the past were established not together with the wholesale prices, but operationally, without affecting them. Now, however, when the establishment has been unified with the initial prices, the result that is being sought is achieved by means of introducing into the prices the new expenditures while retaining for the markups only the functions of providing an incentive¹⁰. The chief thing was realized -- the consumer senses and pays the expenditures, extracting from this the sufficient effect.

In passing we might note that certain types of markups even previously used to guarantee both the compensation of the expenditures and the formation of profit. Temporary markups to the permanent retail prices of commodities with the index "N" (new?) are distributed into the material-incentive fund, for the compensation of additional expenditures (not including those being financed from the YeFRNT), the formation of profit (with the guaranteeing of the average profitability for the individual enterprise or group of outout), and to the budget (to compensate for the losses resulting from the discounting of the same commodities with the subsequent reduction of the prices for them). Contract prices for high-quality consumer commodities (those with the index "D" [contract?]) cover the production costs and guarantee the average profitability of the enterprise, but in the part that exceeds those items is used to provide incentives for the collectives and to make payments to the budget. Additional expenditures for improving the technical-economic indicators of the output as compared with the standards, together with the profit, is included in the additional payment. For output that is intended for export, the markups compensate for the additional expenditures, but do not contain the profit. It is desirable to make the markups for export "small prices," that is, to use them both to cover the additional expenditures and for the formation of new profit.

The next stage in sale is the sale of the commodities at permanent prices, without markups. There is a question here. The articles that pertain to quality category I are distinguished from one another. They include both better ones, average ones, and worse ones. Meanwhile it has been determined that the prices of all commodities in category I include a normative profit. It would be more correct to differentiate that rule.

The application of markups cannot be effective without the use of rebates. Otherwise the prices as a whole will drop less than is necessary. Rebates, like ordinary price reductions, express the pressure of the "consumption prices" upon the "production prices." Such rebates are a press that forces the manufacturers to reduce the price of and improve the quality of the commodities, an economic limiter that forces out the obsolete products.

The current system of rebates is imperfect. Even under conditions of the wide-scale experiment they are limited to 30 percent of the wholesale price (the markups are also authorized in the same percentage). The rebates are not

employed when delivering output of improper quality, when it nevertheless can be used and the customer agrees to accept the commodity.

Rebates, in addition, do not, in general, reduce the prices at which the consumers pay for the articles. They pertain only to the prices to be received by the producers. The difference between these and other prices is paid into the budget. It turns out that the rebates do not bring any advantages to the consumers. For them the worsened output remains expensive, output which in principle does not have any demand, but at the same time, when the prices are lowered (including for the consumers also), that output can nevertheless be reclaimed. Sometimes fears are expressed that rebates for the consumers will lead to an increase in the demand for poor commodities. Those fears are unfounded. Even with the existence of those rebates, the only commodities that will be purchased are those that provide an effect not lower than the price. It is, obviously, necessary to emphasize: the idea according to which the rebates must be extended to the consumers continues the principle of doing away with the markup that is the first rebate.

Markups and rebates are not planned. In the press the opinion has been expressed that this mechanism is the only possible one. This position is defended, in particular, by A. V. Bachurin. He writes, "Markups and rebates exert an effect upon the producers of output provided that the planning indicators of sale and profit, as well as the other value indicators, are established by proceeding from the approved prices, and the evaluation of the fulfillment of the plans is carried out with a consideration of the markups and rebates"¹¹. But the absence of the planning of markups and rebates removes from the plan rather large amounts of money (or, conversely, artificially introduces them). There is also an underestimation (overestimation) of the true dimensions of the YeFRNT, to which part of the markups is channeled (rebates are deducted). All this worsens the planning of investments. Although there are no markups in the plan, they are included in the reports on the realization of profit. Thus, the plans and reports prove to be incapable of being compared. These negative processes are building up, since the application of markups and rebates is expanding. In 1983, for example, the markup for effectiveness and quality constituted 7.9 percent of the wholesale prices for the output of machine-building, including 11.5 in Minkhimash [Ministry of Chemical and Petroleum Machine-Building], 9.2 in Minselkhovmash [Ministry of Machine-Building for Agriculture], and 4.4 percent in Minsstroydormash [Ministry of Construction and Road Machine-Building].

In our opinion it is necessary to change over to the planning of markups and rebates. In addition, in the confines of the existing economic mechanism they should be planned as a separate line, with their own encouragement and punishment which are not diluted in the overall plan. When the entire encouragement is based on the "level" basis, the markups and rebates in the overall procedure merge into the results and expenditures.

The consideration of effect is becoming the norm of pricing. The consumer parameters of the articles being produced, their influence upon the lowering of expenditures in the subsequent link of the technological chain, are considered, on a mandatory and mass procedure, in the form of a price limit on the producers' costs. Thus, in the decree of the CPSU Central Committee and

the USSR Council of Ministers, entitled "Improving the Economic Interrelationships Between Agriculture and the Other Branches of the National Economy," there is a direct indication of the determination of wholesale prices for the industrial output to be sold to agriculture, with a consideration of its effectiveness to the national economy¹².

The fullest extension of the new rule is hindered by the old economic mechanism, which legalizes the application of overstated prices and which leaves a place for the economic situation when it becomes a matter of the grotesque desire by the consumers themselves to predict and indicate an overstated effect. True, a procedure has been introduced whereby the manufacturer-ministries coordinate the prices with the consumers. But at such time the economic effect stated by the manufacturer-ministries after coordination with the consumers is overstated on the average by 30-50 percent. According to the results of inspections, approximately one-third of the draft versions of the wholesale prices are reduced by 20-30 percent. Inasmuch as no economic demand made on the customer pertains not to the rated effectiveness, but the planned effectiveness, to that extent the NII [scientific-research institutes] design low prices which are subsequently increased. For example, a machine tool in the Razmer-4 system was evaluated by an NII to be 70,000 rubles each, but actually was created and sold at 120,000 rubles. The consumers accept excessively high markups if that threatens them basically with an increase in the capital investments and depreciation fund that is left, to a considerable degree, at their disposal. In order to avoid the demonstration of nonexistent achievements, steps are taken to assure that the markups are determined by proceeding not from the formally approved effect, but the actual effect. Markups for raising the technical level and improving the quality of manufacture of machinery for agriculture are established on the basis of the actually obtained economic effect. But here too one detects a "way out" that is unjustifiably advantageous for the producers: the adjustment of the overstatement of the particular effect by the planned legalization of a reduced overall effect. Although the application of rebates is stipulated by the statutes that are in effect, actually there is an extremely small number of them, and that number is incomparably smaller than the number of markups. One also observes the effect of the insufficient self-interestedness of the consumers in the lowering of prices, and the monopoly position of the producers.

It is time for a complete changeover to evaluating the activity of the collectives on the basis of the level of effectiveness, when the consumers will begin to have a vital self-interestedness in preventing the overstatement of prices. By assuming the role of producers, they experience the very same "economic pressure" on the part of the consumers of their output; and it continues that way up until the final consumers -- the personal-consumption sphere. "Not more expensive than the effect, but cheaper" -- that should be the first commandment of pricing in the economic mechanism of developed socialist society.

In the face of the consumer's indifference toward the price, the producer, as is well known, overstates his planned expenditures of live and embodied labor, so that subsequently it is easier to "save" more of them, and to receive large-scale bonuses. Steady movement forward along this path is hindered only

by the danger of receiving for the next period an increased planned assignment. With the stability of the assignments of the five-year plan, the threat retreats, but it does not disappear. The changeover to effective consumer control over prices transfers the economizing of the producers to actual achievements and makes the paying of incentives for them unconditionally justified.

FOOTNOTES

1. The "expenditure" system of pricing should not be confused with the orientation of the price on value, that is, on the socially necessary expenditures.
2. For commodities intended for cultural and everyday purposes, and for medicines, wholesale prices are computed in a different procedure -- from the retail prices minus the turnover tax and trade markups; as a result, such prices sometimes prove to be lower than the "overgrown" cost of production.
3. See: VOPROSY EKONOMIKI, No 8, 1982, pp 3-14.
4. Prices gravitate toward understatement because of the fact that the branch production costs that are taken as the base of the wholesale price of the new technology are computed without the expenditures of the technically backward enterprises that are to be remodeled.
5. See: "Vremennaya tipovaya metodika ekonomicheskoy otsenki mestorozhdeniy poleznykh iskopayemykh" [Temporary Standard Methodology for the Economic Evaluation of Mineral Deposits], Moscow, 1980.
6. Dzerzhinskiy, F. E., "Izbrannye proizvedeniya v 2-kh tomakh" [Selected Works in Two Volumes], Moscow, 1977, Vol 2, pp 51-52.
7. Actually in 1983, 20.6 percent of the effect went into the markup.
8. The producer's production costs do not include only the expenditures for the preparation and assimilation of the production of new technology which are not reimbursed from the YeFRNT.
9. See: VOPROSY EKONOMIKI, No 6, 1977, p 109; VOPROSY EKONOMIKI, No 11, 1983, pp 55-56. Certain economists have been afraid that, when carrying out this measure, the prices will rise (see, in particular, Sedlov, N., "Improving the System of Planning and Economic Incentives for Scientific-Technical Progress," VOPROSY EKONOMIKI, No 9, 1977, p 119). At such time they forgot that there is a reduction, by exactly the amount of their growth, in the deductions for the production costs of technology that are carried out for the benefit of the YeFRNT, that is, the new technology will become more expensive, and the old technology will become cheaper. That will correspond to the real correlation of the national-economic advantageousness of various types of articles, or, rather, will reflect the actual effectiveness of the new and old technology.

10. The suppliers have the right to choose: whether to establish a new price with a consideration of the better quality of the article, or to arrive at the same proceeds by means of totaling the simultaneously introduced previous price and the markup. More often the preference is given to the second method, inasmuch as the markup has preferential distribution. At the same time, much time is spent to receive it, and the time period for using it is limited. As a result, the choice is sometimes for the increased basic price, that is, the first of the methods mentioned.
11. Bachurin, A. V., "Nekotoryye voprosy upravleniya narodnym khozyaystvom" [Certain Questions in the Administration of the National Economy], Moscow, 1977, pp 60-61.
12. See: PRAVDA, 23 July 1983, p 1.

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INVESTMENT, PRICES, BUDGET AND FINANCE

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PRICE COMMITTEE OFFICIAL QUERIED ON WHOLESALE PRICE STRUCTURE

Moscow STANDARTY I KACHESTVO in Russian No 8, Aug 85 pp 31-33

[Interview with V. F. Afanasyev, deputy division chief of the USSR State Committee on Prices: "On the Setting of Wholesale Prices, Incentive Markups, and Discounts on Them"; date and place not given]

[Text] V. F. Afanasyev, deputy division chief of the USSR State Committee on Prices, replies to questions from the workers at ministries and departments, enterprises and organizations.

[Question] To what products is the procedure being spread for setting incentive markups on the wholesale prices for new, highly effective products, meeting the requirements of the highest category of quality?

[Answer] This procedure is being extended to new machines, equipment, and instruments of a production-technical type in serial (mass) production, manufactured by enterprises regardless of their departmental jurisdiction; to large and custom-built machines, special technological equipment for enterprises being built or modernized, being manufactured according to standardized orders and not intended subsequently for serial production, and likewise to items new in principle, being developed for the first time in the USSR, and not having analogies among products being produced on which temporary wholesale prices have been set.

The indicated procedure is not applied in approving wholesale prices on industrial products being manufactured on ad hoc orders, experimental models (batches) of new types of items subsequently intended for serial production, as well as other products not subject to certification. Setting wholesale prices on such products is carried out in accordance with the existing normative documents.

[Question] In order to determine the prices and the incentive markups on them for highly effective new products which are just as good in their parameters as the best Soviet and foreign models, it is necessary to make calculations of the economic effect, coordinated with the user of the new product. In calculating the economic effect, is it possible to replace the parameters reflected in the normative-technical documentation by the values of indicators contained in the reports on testing the new equipment, as coordinated and approved by the user-ministry and the developer-ministry?

[Answer] Replacement is not feasible, inasmuch as the manufacturer bears the responsibility for the consumer (user) and other parameters of a new product, as established in the normative-technical documentation.

In cases where certain improved consumer (user) and other indicators of a new product are lacking in the normative-technical documentation for a previously developed product, in determining the prices, a comparison of such indicators is to be made in accordance with the results of tests conducted in the established procedure or according to the data derived from the use of previously developed equipment, as confirmed in documentary manner by the client.

[Question] Is there an established limit on the increase in prices with mark-ups on new machinery and equipment?

[Answer] The dimensions of the wholesale prices and the markups on them are limited by the magnitude of the economic effect, in the determination of which all its actual components are taken into account: productivity (capacity, the load-carrying ability of an item, its durability, savings on the user's expenditures provided by it), social parameters (labor safety, reducing vibration and noise level, impact on the environment), etc.

At the same time, the incentive markups must not exceed 50 percent (on certain types of products this figure is 70 percent) of the economic effect and 30 percent of the wholesale price.

[Question] Does the period of validity of the incentive markup depend on the periods of validity of the normative-technical documentation?

[Answer] The periods of validity of the incentive markups are linked to the periods of validity of the quality category of a product, which is established as a result of its certification.

If the normative-technical documentation on this product has been removed, or its period of validity has come to an end, then the wholesale price and the incentive markup on it lose their force without a special resolution by the organs which approved the price.

[Question] In what cases can the validity of an incentive markup be extended when a product has been awarded a State Badge of Quality for the third (fourth, etc.) time?

[Answer] If a State Badge of Quality is awarded for the third time to a product whose technical-economic parameters have been approved (in comparison with the parameters which it had at its second certification), then for the wholesale prices on such products we can establish new incentive markups, taking into account the additional economic effect derived from improving the technical-economic parameters (improvement in the parameters must be reflected in the normative-technical documentation or in changes to it). In this case, the establishment of wholesale prices and markups is carried out as if it were on a new product, following the procedure provided for by the Methodology for Determining Wholesale Prices on New Machines, Equipment, and Instruments (1982) and by the supplements to it.

If a product is certified for the third time for a higher quality category, but its technical-economic parameters have not been improved (or improved but this improvement is not reflected in the normative-technical documentation), and, therefore, it is not providing an additional economic effect, then the incentive markup is not extended.

[Question] Do we make it a practice to set an incentive markup on the wholesale price for a modernized product (one which is being produced in accordance with a revised normative-technical documentation)?

[Answer] Incentive markups to the wholesale price on a modernized product are set in the same way as they are on a new one, i.e., taking into consideration improvements in its technical-economic parameters and the presence of an additional economic effect.

[Question] Is the validity of a markup extended in the case of a prior (accelerated) pre-certification? In such cases, for what time periods can incentive markups been established for wholesale prices on a product whose higher quality category has been confirmed? Is the prior pre-certification taken into account as planned in extending the markups?

[Answer] At the present time the prior pre-certification which is being conducted is not considered a planned in deciding the question of whether to extend the validity of the markups to the wholesale prices on a product of the higher quality category. Therefore, in the case of prior (extra-plan) certification of a product, as a result of which it is awarded a State Badge of Quality, the incentive markup to the wholesale price on this product, as approved in the appropriate price list, is retained.

When the term of validity of an incentive markup to wholesale prices on products with the Badge of Quality is extended, it must be borne in mind that this time period is established without taking into account the extra-plan certification, and it must not exceed 7 years, while for a product of particular complexity--this period is 10 years.

If an article is awarded the first quality category, then the markup is not applied from that date when the item in question was certified as belonging to this category.

[Question] Is the markup retained on the price of a product in case the latter's certification in a prior manner, but this product is certified as belonging to the highest category on the third time around?

[Answer] In the case of a prior certification of the highest quality category for the third time, the markup can be retained until the deadline for the expiration of the markup's validity, as established resulting from the second certification and indicated in the appropriate price list (within the limits of the total period of its validity).

[Question] In the case of recertification, is it necessary to recalculate the economic effect?

[Answer] In the case of re-certification, the recalculation of the economic effect is not required. In order to retain the amount of the markup for effectiveness and quality, it is sufficient to present the Certificate regarding the product being awarded the State Badge of Quality, as registered in the organs of the State Committee for Standards, as well as the changes in the existing normative-technical documentation, reflecting the improvement in the product's technical-economic parameters.

[Question] What is the procedure for setting incentive markups on wholesale prices (for effectiveness and quality) on products being created in accordance with standard orders and not intended for serial production (large and custom-built machines, engineering equipment, etc.)?

[Answer] The Methodology of the USSR State Committee on Prices with regard to determining the wholesale prices and norms of net production for new machines, equipment, and instruments (1982) provides that the incentive markups on the wholesale prices for highly efficient products, created in accordance with standard orders and certified and certified as having the highest quality category, are set in a common procedure. Moreover, the correspondence of the product parameters to the best Soviet and foreign models is confirmed on the basis of this sector's existing procedure for evaluating the technical level and quality of the products.

[Question] In certain cases, a particularly complex product with a lengthy cycle of manufacture and installation is awarded the highest quality category for a time period of as much as 5 years. In what instances can the validity of an incentive markup on the price be extended for 5 or more years when such a product has earned the State Badge of Quality?

[Answer] For a new, highly effective product of particular complexity, which is equal in its parameters to the best Soviet and foreign models, an incentive markup on the wholesale price is approved in the established procedure for a time period of 2 years from the beginning of production of this product. If it is awarded the State Badge of Quality during the course of this year, the validity of the established incentive markup is extended for three years (the total time period of the markup's validity must not exceed 5 years). After the expiration of this period, the validity of the incentive markup can be extended for another 5 years only if, upon re-certification of the product whose technical-economic parameters have been improved, it is again awarded the State Badge of Quality for a period of 5 years. As a result, the total time period for the validity of a markup can consist of 10 years.

[Question] On what products of the production-technical type are discounts from the wholesale prices applied? Are discounts applied to products of an established series?

[Answer] Discounts from wholesale prices are applied on all industrial products of the production-technical type being turned out which are subject to certification (as included in accordance with Par. 1.3 of the Procedure for Certification of Industrial Products for Two Quality Categories (1984) in the list of products subject to certification). The above-indicated Procedure for Certification (Par. 1.4) has provided that products newly developed at a

manufacturing enterprise, including those being manufactured in accordance with technical documentation bearing the letter O₁ (established series), must be certified, taking into account the results of their operation (use) no later than a year, and, products of a particular complexity--no later than two years from the time their serial production has begun.

Discounts from wholesale prices are applied from the end of the period of validity of the previous certification or that of the established time periods of product re-certification.

[Question] At the present time the ministries have worked out schedules for re-certifying the most important types of products under the monitoring controls of the State Committee on Standards. Will discounts from the wholesale prices be applied if a product is not re-certified within the time period established by the schedule, and the time period of the validity of the quality category awarded as a result of the previous certification has not yet expired (for example, O₁.O₁.86 is expiring)?

[Answer] If a product which is subject to certification is not re-certified within the established time period, also including those provided for by the schedule before the prior re-certification, then discounts from the wholesale prices must be applied in the established procedure.

[Question] What documents define the procedure for establishing and applying discounts from the wholesale prices on products which have not been certified within the established time periods for the highest or the first quality category?

[Answer] Discounts from wholesale prices on products which have not been certified for the highest or first quality categories must be applied from the time the validity of this category ends in accordance with Supplements No. 1 and 2 to the Methodology of the USSR State Committee on Prices regarding the determination of wholesale prices and the norms for the net production on the new machines, equipment, and instruments (1982), as well as in accordance with the letter from USSR Gosplan, the USSR Ministry of Finance, and the State Committee on Standards, dated 18 August 1984, No. 10--17/2719--33 "On the Procedure for Adopting Discounts from Wholesale Prices."

[Question] In what cases are discounts amounting to 30 percent of the wholesale price not applied?

[Answer] Discounts amounting to 30 percent of the wholesale price are not adopted if the product is being supplied for export, nor in cases where the price-forming organs have established other amounts for the discounts from the wholesale price, for example, on reinforced-concrete items being made in accordance with series which have been abandoned by USSR Gosstroy, on certain types of products turned out by the Ministry of the Automotive Industry, etc.

With regard to products included in the state, republican, and sectorial plans for economic and social development as subject to being taken out of production, discounts are applied in the amounts provided for in the appropriate price lists.

[Question] For what time period must discounts be introduced into the budget?

[Answer] Discounts must be introduced into the budget for the entire period of sales of a product which has not been certified for a time period, while, if a product is subject to being taken out of production, then the period for the introduction of a discount is provided for in the appropriate price lists.

[Question] If a product has not been certified, then why are the discounts applied from the day of the adoption by the State Certification Commission of the decision on this and are not granted to an enterprises for several months before this product is taken out of production?

[Answer] An uncertified product is a product which is subject to being taken out of production, whereas a discount from a wholesale price is an economic measure providing impetus to an enterprise to replace an obsolete product. Therefore, it must be adopted right away, as soon as the certification commission has adopted the appropriate decision.

[Question] Is the discount from wholesale prices introduced if the product is unprofitable?

[Answer] It is introduced, since the discount from a wholesale price does not depend on the amount of profit obtained by an enterprise from the sales of a product which is subject to being taken out of production.

[Question] Practical experience has shown that often the technical-economic parameters of equipment which correspond to the requirements of the normative-technical requirements in their manufacture as early as the initial period of their use (due to defects in assembly, welding, casting, etc) turn out to be, especially with regard to the indicators of reliability, lower than those which were accepted upon the product's delivery to the production line and as provided for in the normative-technical documentation. In these cases, are the prices reduced on the product (are discounts established)?

[Answer] If the principal user-ministries present to the State Committee on Standards data to the effect that the normal operation of equipment has not been ensured and the manufacturer is to blame, then the USSR State Committee on Prices, taking into consideration the conclusion of the State Committee on Standards, can reduce the wholesale prices on this equipment approximately to its actual quality or establish appropriate discounts.

At the present time this method is being used to stimulate an improvement in the quality of manufacture of agricultural equipment. Thus, serially produced agricultural machines and tractors periodically undergo control (repeated) tests at machine-testing stations. If, as a result of these tests, the de facto quality of the machines turns out to be lower than that provided for in the normative-technical documentation, then the USSR State Committee on Prices at the suggestion of the USSR State Committee for Supply of production Equipment for Agriculture establishes discounts from the wholesale prices on these machines, taking into account the results of the tests which have been run.

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INDUSTRIAL DEVELOPMENT AND PERFORMANCE

MANAGERS, SPECIALISTS DEBATE NEW STANDARDS GUIDELINES

Moscow EKONOMICHESKAYA GAZETA in Russian No 36, Sep 85 p 10

[Article by V. Denisov under the rubric "New Methods of Economic Operation in Action": "The Authority of the 'Symbol of Quality'"]

[Text] The CPSU Central Committee and USSR Council of Ministers Decree "Broad Dissemination of New Methods of Economic Operation and Reinforcement of Their Effect on the Acceleration of Scientific and Technical Progress" recognizes that it is necessary to strengthen the role of state and sectorial standards in the development and series production of machines, equipment, instruments, materials and other products conforming to the highest world achievements in their technical and economic indicators and their operating indicators.

EKONOMICHESKAYA GAZETA together with the journal STANDARTY I KACHESTVO recently conducted a business meeting of the managers and chief specialists of a number of production associations, enterprises, ministries and departments. The discussion concerned the role of standards, the new procedure for certifying product quality, and other economic measures guaranteeing strict compliance with requirements of the state Symbol of Quality.

"Product quality is based on requirements of the standard," USSR Gosstandart [State Committee for Standards] Deputy Chairman I. I. Isayev noted in his statement. "The new procedure for certifying an industrial product based on two quality categories was introduced to assure a more objective evaluation of a domestic product's conformity to the contemporary level of scientific and technical progress. The distinguishing features of the innovations are as follows: abolition of the second quality category, the presence of which was not in the interests either of a specific consumer or of the national economy as a whole; increased severity of demands on a product of the highest quality category and the mandatory nature of testing of articles being certified. Only a product which conforms to the best world achievements, i.e., a product that is competitive, can lay claim to the state Symbol of Quality."

The new certification procedure unfortunately is not being implemented as quickly as one would like. The country produces over 31,000 product descriptions (not counting products of light industry) which have been given the GZK [State Symbol of Quality], but this year a little less than 10,000 were recertified under the new system. The Mintyazhmash [Ministry of Heavy and Transport Machine Building] did not submit for recertification 67 percent of its products subject to this procedure, the Minlegpishchemash [Ministry of Machine Building for Light and Food Industry and Household Appliances] did not submit 63 percent, and the Minkhimprom [Ministry of the Chemical Industry] did not submit 66 percent.

What is hampering the recertification? Enterprises often do not cite data comparing the item being certified with foreign analogs. The engineering level card--the document which must accompany a product from the moment of its origin until it is removed from production--is being filled out unsatisfactorily. Instances of a low engineering level of articles submitted for conferral of the highest quality category are no rarity.

D. M. Dukorskiy, chief designer of the Moscow Jig-Boring Machine Plant, drew attention to the fact that enterprises now have to have comparative data of tests of foreign models produced in recent years. Plants usually do not have such data and it is no simple matter to obtain them. It is impossible to use the data of catalogues, inasmuch as their characteristics published in them usually are inflated for advertising purposes.

Every enterprise now must know the best indicators for articles being produced. How can they be helped? In the opinion of the meeting's participants, such information could be supplied by sectorial scientific research institutes.

Also discussed at the meeting were situations which often arise where articles inferior to the best models lay claim to the Symbol of Quality.

"In lamenting product quality," said GKNT [State Committee for Science and Technology] Deputy Chairman A. F. Kamenev, "we cannot throw off a stereotype that production allegedly is at fault for everything. But this is more the result than the cause, since the stages preceding the manufacture of products demand a more serious evaluation and a stricter approach. It is a question of scientific research and development. The indicators of many projects of power engineering, ferrous and nonferrous metallurgy, chemical and petrochemical complexes under construction and of machine building products depend on the quality of decisions made in the NII [scientific research institutes] and KB [design bureaus]."

As noted at the business meeting, the low rates of recertification sometimes are explained by the inertia of economic thinking and by an obsolete approach to the real state of affairs. Some enterprise heads attempt to obtain the full extent of all moral and material privileges without any new concerns by using the results of certification performed before the new procedure went into effect.

The Work of Certification Commissions

"We have to comply more strictly with requirements for conferring the state Symbol of Quality," remarked Comrade M. S. Gorbachev at a CPSU Central Committee conference on the acceleration of scientific-technical progress. "Product quality must be an object not only of professional pride, but also of national pride."

The CPSU Central Committee and USSR Council of Ministers decree of 12 July 1985 deemed it necessary to elevate the role of certification commissions in evaluating a product's engineering level and quality and its conformity to the best world and domestic models. Certification commissions must include specialists whose qualifications and experience assure the adoption of objective and substantiated decisions.

The meeting took a critical look at the work of state symbol of quality certification commissions in light of the new demands. For example, a scientific research expert appraisal of machinebuilding products performed by the State Committee for Standards indicates that a third of the decisions of state certification commissions on conferring the state Symbol of Quality are made without proper principle.

Just what has to be done to ensure that the state Symbol of Quality is conferred on really competitive products?

First of all, as participants of the meeting noted, the responsibility of state certification commission members must be increased. They must be provided with complete and valid data on the engineering level and quality of the best product models and they must bear personal responsibility for the decisions which are made.

Secondly, it would appear that the ministries which are the clients and consumers of products being certified could be more demanding. Sometimes the difference between the "display" models of an article on the basis of which agreements are concluded and the series-made product is so great that it makes literal sense to stop the useless waste of effort, resources and other physical inputs.

"There is a procedure," remarked A. A. Avraamov, chief designer of the Moscow Grinding Machine Plant, "that if a product is exported or is promising for export a representative of the Minvneshtorg [Ministry of Foreign Trade] is included in the certification commission, but as a rule you won't get an answer from him. Then we request a written finding. They don't give it. They say they're not ready to evaluate the machine tool's engineering level, and the red tape begins. All this forces the designers to touch all bases and 'force' their articles through."

Economic Factors and Equipment Quality

"Certification and standardization are tied in most closely with price formation," said L. I. Rozenova, chief of a department of the USSR Goskomsen [State Committee on Prices]. "Last year prices were established on 6,000 new machines and instruments. Half of them received markups amounting to R770 million overall. Another incentive tool, discounts, is used much more rarely. The prices on articles have been reduced a sum total of five million rubles for poor quality. Even the minutes of this business meeting indicate that there are considerably more possibilities for sanctions. I would like to address the State Committee for Standards: well adjusted information on the progress of certification is necessary. We cannot be reconciled with the fact that obsolete products bring profits for an enterprise."

This problem is even more important in that the CPSU Central Committee and Council of Ministers decree of 12 July 1985 directly states that depending on a product's economic effectiveness, a markup of up to 30 percent is applied to the wholesale price for a product which is for an industrial engineering purpose and which conforms to the highest quality category. The markup is retained if this product is again given the highest quality category in subsequent certifications.

A discount of five percent from the wholesale price is applied in the first year, ten percent in the second year and fifteen percent in the third year to a product with an industrial engineering purpose which has been placed in the first quality category in certification. If this product should not be placed in the highest quality category in a second certification it must be removed from production. Its manufacture can be continued for up to two years with a 30 percent discount by authority of USSR Gosplan and USSR Gosstnab, which practically makes production unprofitable.

G. M. Durko, a designer of the Moscow ATE-1 Plant, and V. M. Fomin, director of VNIISTandartelekro [exact expansion unknown], spoke at the business meeting about a need to strengthen the incentive effect of the mechanism for certifying industrial products on the development of fundamentally new technology in the scientific research institutes and design bureaus.

The Quality of Consumer Goods

The decree entitled "Broad Dissemination of New Methods of Economic Operation and Reinforcement of Their Effect on the Acceleration of Scientific and Technical Progress" contains substantiated recommendations for strengthening the dependence of workers' material incentives on the end results of labor collectives' work to increase the output of high quality consumer goods.

"The bulk of consumer goods consists of products of the light and food industry, which are not subject to certification based on quality categories," said S. Ye. Sarukhanov, deputy minister of trade of the USSR, as a reminder.

"Instead of this, there is a mechanism which stimulates the output of products with the index 'H,' i.e., new commodities of improved quality, as well as especially fashionable commodities. The procedure for considering consumer goods

and conferring the 'H' index on them, which is coordinated with the USSR State Committee for Standards and State Committee on Prices, provides for 10-15 percent markups on new commodities and contract prices on especially fashionable commodities."

The proportion of manufactured products with the "H" index and of especially fashionable commodities presently is approximately 30 percent of the total production volume of light industry products. Checks indicate, however, that at times very insignificant changes in articles are sufficient for conferral of the "H" index, after which they are manufactured for one or two, or even for three or four years. The manufacturing quality of new commodities also leaves much to be desired: usually at least 6-8 percent of a commodity lot which is inspected is rejected.

In the opinion of the meeting's participants, it is necessary for those requirements placed on consumer goods under the previous certification for quality categories to be included in the normative technical documentation on these goods. Conferral of the "H" index in turn must be done only with consideration of the conformity of articles to the revised NTD [normative technical documentation].

During the meeting N. I. Pershin, general director of the 2d Watch Plant Production Association, noted a paradoxical situation in which the wishes of trade are not the chief pricing indicator for an enterprise producing consumer goods.

Participants of the business meeting expressed a number of constructive proposals involving a strengthening of the role of standards in improving product quality and a further improvement in certification practice.

I. I. Isayev, deputy chairman of the USSR State Committee for Standards who spoke at the conclusion of the discussion, said that all suggestions expressed during the meeting would be discussed at a session of a standing interdepartmental working group of four committees (the State Committee for Science and Technology, USSR Gosplan, the State Committee for Standards, and the USSR State Committee on Prices), which examines current issues in the work of product certification.

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